

BEFORE THE  
POSTAL RATE COMMISSION

International Mail Report

Docket No. IM99-1

REPLY COMMENTS OF FEDERAL EXPRESS  
FEBRUARY 8, 1999

Federal Express hereby offers observations in reply to comments submitted by several parties pursuant to Commission Order No. 1226 (January 15, 1999). This Order asked interested parties to offer suggestions on the preparation of the report on international mail required by the recently enacted provision, 39 USC §3663.

**1      Commercial sensitivity of "country specific" data**

The Postal Service suggests that "two of the services are country-specific, such that reporting on them separately would require production of commercially-sensitive information." (page 2) In the first place, of course, the issue of commercial sensitivity goes to question how data should be reported in the Commission's public report, and not to what data should be submitted to the Commission. Even in regard to the Commission's public report, however, FedEx submits that the Commission should not accept the Postal Service's claim of commercial sensitivity argument uncritically. It will be recalled that, in R94-1, the Postal Service made the absurd claim -- apparently dropped in this proceeding -- that disaggregation of data by world region (e.g, Europe, Asia, South America) would reveal commercially sensitive information.<sup>1</sup> Indeed, it should be recalled that all data in a

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<sup>1</sup>See Declaration of Allen R. Kane (attached to Additional Comments of the Postal Service dated June 30, 1994).

domestic rate case is "country-specific."

As we said in our initial comments, international data will be completely opaque to public scrutiny unless it is divided into at least three categories: Canada, Mexico, and the rest of the world. Beyond this, the rest of the world letter-post mail should be subdivided by terminal dues regime because of the importance of terminal dues in total costs and the problems associated with uniformly priced terminal dues rates.

## **2 Level of product disaggregation**

USPS suggests that costs and revenues for small products, like Valuepost/Canada and Bulk Letter Service/Canada, should not be reported separately. FedEx disagrees. If products are priced separately, they should be reported separately to the Commission because separate pricing raises the problem of possibly illegal pricing. Whether the Commission chooses to aggregate such data for the public report is another matter not raised by the current inquiry. Indeed, as noted in our initial comments, we believe the Commission should require separate reports for rate groups of products like ISAL and IPA because the cost structures for these rate groups are so different as to define different products. Unlike "rate zones" in domestic mail, international rate groups represent considerably more than a relatively minor and homogenous elongation of a single cost component.

USPS also suggests that disaggregation of costs for specific products may not be feasible because "costs are not tracked separately." (page 3) We suspect the Commission will find this a normal problem with international mail. USPS does keep cost data for international mail in product categories. Hence, costs will have to be allocated according to measures of volume (pieces and weight). Such techniques are unavoidable if the

Commission is to develop meaningful analysis of international mail products.

USPS also suggests that aerograms and post cards should be consolidated because they are similar in characteristics, and costs are recorded together. This seems to be a plausible argument, and we would not object to consolidation of such data. As we noted in our initial comments, we suspect -- but do not know for certain -- that the same situation may apply to printed matter and small packets.

AMMA seems to argue against any disaggregation of international mail data. It suggests that "the categories of international mail do not represent separate and homogenous 'products or services' in the same way that domestic classes and subclasses of mail do." (page 3) We agree. However, we do not understand why this disorder should relieve the Commission from its duty, under §3663, "to analyze the costs, revenues, and volumes for each international mail product or service." Hence, we disagree with AMMA's conclusion that §3663 permits the Commission to confine its analysis to international mail costs and revenues as a whole and agree with the Consumer Advocate at page 12 that the Commission's responsibility is to analyze the costs and revenues of "each discrete international mail product" (Consumer Advocate at 12).<sup>2</sup>

### **3 Transit mail and international transport costs**

The Postal Service notes that it "does not track costs separately [for transit mail] because transit mail is included in the Postal Service's own dispatches of international mail." If the Postal Service means that it does not separately record the ground handling

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<sup>2</sup>On the other hand, AMMA's observation does suggest that the public interest may require the Commission to initiate a classification class for international mail. As we read title 39, §407(b)(2) exempts international rates from the ambit of §3622 but does not exempt international mail classification from the scope of §3623.

costs associated with transit mail, this would seem to be an area where improved data is needed. Indeed, it is our general impression that the Postal Service has previously complained about the high cost of *à découvert* transit mail (i.e., mail shipped to the U.S. in loose form so that the Postal Service must sort and place it into mailbags). This would suggest such costs might be available, at least in the form of special studies.

If the Postal Service is saying that purchased international transportation costs are not separately tracked for international mail, we would suggest that this should not be an obstacle to attributing such costs to individual products. In general, there are only four geographic zones for international purchased transportation rates (Atlantic, Pacific, Latin America, and Transborder). Leaving aside the Canada/Mexico mail (which is a little more complicated), international transport costs within a geographic area vary only by (i) distance, (ii) weight, and (iii) priority/non-priority status. Moreover, it seems likely that the Postal Service maintains records of international transport costs by destination airport for each major type of mail (LC, AO, express, parcels) because it must pay the airlines. With such clues, it would seem that international transport costs could be developed with a reasonable level of confidence and allocated to individual products.<sup>3</sup>

Finally, we note that, AMMA's suggestion that "rates for groupings of international mail do not significantly differ based on distance" (page 3) misses the mark entirely. International mail rate groups do not reflect variations in transportation costs alone; they

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<sup>3</sup>See J. Campbell and A. Strickland, "A Preliminary Analysis of USPS Rates for Major International Postal Services" (May 8, 1992). Although this report was only a crude first attempt to analyze costs and revenues of international mail with woefully inadequate data, it illustrates a number of techniques suggested in this reply, including an approach to developing international transportation costs, the importance of separating Canadian and Mexican data from the rest of the world and the need to analyze mail flows by terminal dues regime.

also reflect even larger variations in terminal dues. Obviously, therefore, rate groupings cannot be interpreted using distance and transportation data alone. However, with the aid of terminal dues data -- the structure of both international transport costs and terminal dues costs is straightforward -- we believe rate groups can indeed be sensibly analyzed. Of course, it will be necessary to examine the available data before making a final judgement.

#### **4 Terminal dues**

AMMA suggests that "there is no rational way to apportion terminal dues for outbound international mail by rate category." (page 4). In reply, we suggest terminal dues are troublesome but hardly impenetrable. As explained in our initial comments, it is perfectly possible and sensible to apportion terminal dues costs by matching up outbound and inbound international mail flows by product (or product group) and terminal dues regime.

AMMA further suggests "the Postal Service does not establish rates for inbound and transit mail. Rather it is compensated (if at all) only indirectly through the UPU terminal dues [sic] structure." However, AMMA greatly exaggerates the extent to which terminal dues are imposed on the Postal Service by external forces. The Postal Service has had a major hand in the terminal dues policy at the UPU for many years and, in fact, has been (so far as we can ascertain) a major obstacle over the years to the alignment of terminal dues with domestic costs (or rates). We suspect that the Postal Service could relatively easily negotiate non-UPU terminal dues agreements aligned to domestic postage with all OECD post offices (as it has with Canada Post). In respect to terminal dues for the remaining minority of international mail, the Postal Service may face some true "political" problems in adjusting terminal dues rates. Even here, one must be careful not to overstate.

While the Egyptian post office may be economically dependent on terminal dues, the Brazilian post office is not, and the Brazilian post office accounts for much more international mail than the Egyptian. "The UPU made me do it" is a highly overrated excuse for the distortions that plague international mail.

## **5 Additional data and procedures**

UPS and the Consumer Advocate provide useful suggestions for documents which may aid the Commission in deciphering international mail costs. In general, FedEx agrees with these suggestions. In addition, FedEx agrees with UPS's suggestions that "the Commission should periodically seek the input of interested parties on the issues faced by the Commission" and "the cost and other data examined by the Commission to compile its report and the costing methods considered should be made available to interested parties -- under suitable protective orders for some data, if appropriate."

In our initial comments, we listed a number of institutional costs which are incurred primarily or exclusively for international mail products. In addition to those expenses noted in our initial comments, we would call the attention of the Commission to two additional types of such costs:

- capital costs incurred primarily or exclusively in connection with international mail products, including the \$535 million capital program that was the subject at a briefing for the Board of Governors on August 5, 1997;<sup>4</sup> and
- contracts with consultants incurred primarily or exclusively in connection with international mail products.

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<sup>4</sup>We assume the Commission has a copy of this presentation; if not, we shall be glad to supply a copy.

**Request for Leave to File Late**

Unfortunately, recasting the appended report into modern electronic form consumed far more time than anticipated. Hence, we respectfully beg the indulgence of the Commission to submit this reply one day late.

Respectfully submitted,

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February 8, 1999

### **Certificate of Service**

I hereby certify that I have this day served the foregoing document on all participants of record in this proceeding in accordance with section 12 of the rules of practice.

James I. Campbell Jr.

February 8, 1999



Appendix

**A PRELIMINARY ANALYSIS  
OF USPS RATES FOR  
MAJOR INTERNATIONAL POSTAL SERVICES**

by J.I. Campbell Jr. & A.D. Strickland

May 1992

**A PRELIMINARY ANALYSIS  
OF USPS RATES FOR  
MAJOR INTERNATIONAL POSTAL SERVICES**

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by J.I. Campbell Jr. & A.D. Strickland<sup>1</sup>

8 May 1992

**I. INTRODUCTION**

The international service of the U.S. Postal Service (USPS) is a billion dollar per year business conducted outside the regulatory scrutiny that accompanies domestic services. The Postal Service negotiates arrangements with foreign post offices and sets international postal rates without prior approval by either the Administration or the Postal Rate Commission. Public comment, if any, is muted by the absence of easily available cost and revenue data.

Drawing upon diverse sources, this paper examines a key aspect of USPS's international business, postal rates. Rates are examined for three services. The first is the international equivalent of domestic first class service, *international airmail for letters and cards* (IALC). The second is a bulk service for letters called *international priority airmail* (IPA). The third service reviewed is the international equivalent of bulk third class mail for printed advertisements, *international surface airlift* (ISAL).

Our study was prompted by two obvious facts that have long provoked suspicion among observers of international delivery services:

- international airmail presort discounts exceed 50 percent, far more than the equivalent discount for domestic first class mail; and
- international bulk printed matter rates may not even cover what USPS pays others for international air transport and foreign postal delivery, much less USPS's total costs.

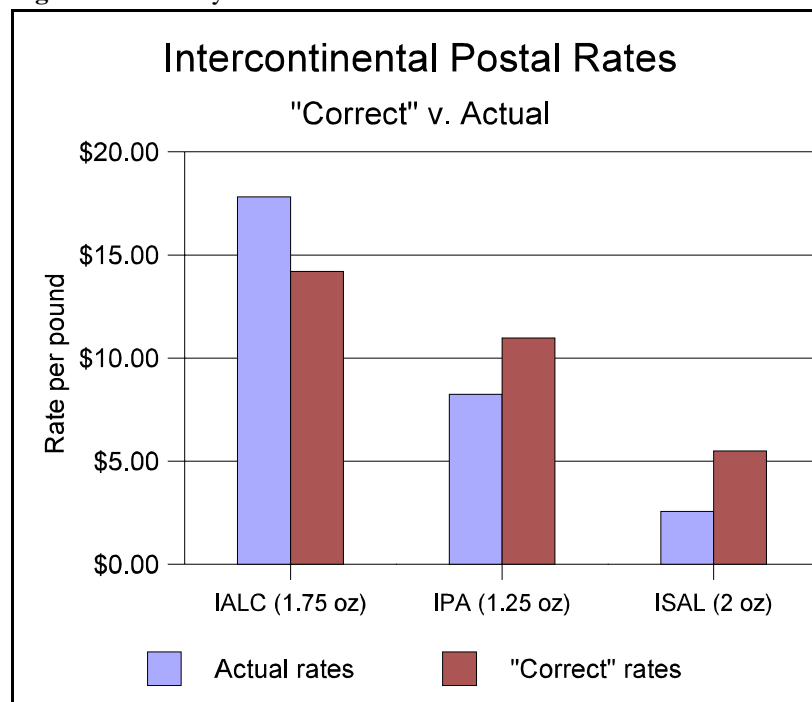
Our study is limited to *intercontinental* rates, that is, rates for delivery to

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<sup>1</sup> Mr. Campbell is a lawyer with broad experience in postal policy and regulatory affairs. Mr. Strickland has a doctorate in economics and is a vice president with Glassman-Oliver Economic Consultants.

international destinations other than to Canada and Mexico. In our review, we applied the rate making approach of the U.S. Postal Rate Commission as the standard for "fair and reasonable" or "correct" rates. See Appendix A. Where necessary, we have used reasonable assumptions to compensate for incomplete or unavailable data. We have also disregarded some international costs that we know to exist but cannot quantify. Despite these simplifications, we believe there is an adequate basis to conclude that *USPS's monopoly international service, IALC, is substantially overpriced, whereas its competitive international services, IPA and ISAL, are substantially underpriced.* Figure 1 illustrates our basic conclusions in very simplified form.

**Figure 1.** Summary of international rates

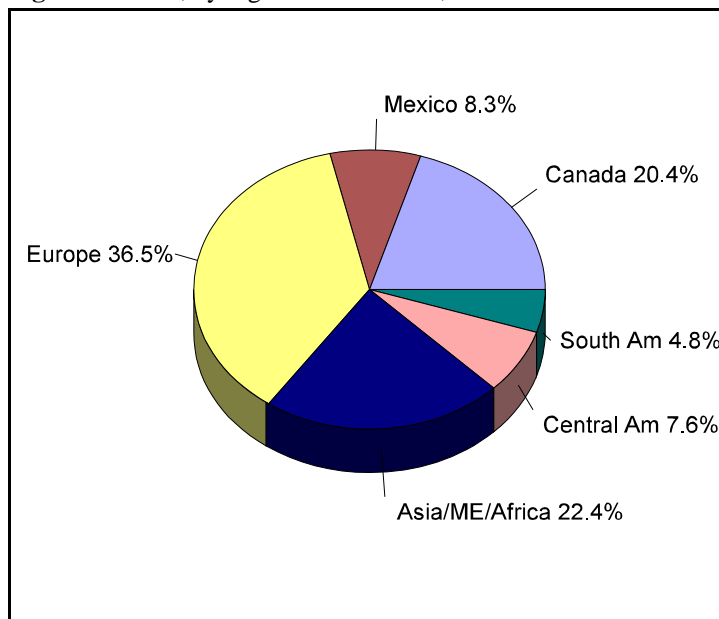


## II. INTERNATIONAL FIRST CLASS SERVICES

### A. Regular service (IALC)

Like first class service in the domestic arena, international airmail service for letters and cards (IALC) forms the core of USPS's international service. IALC is provided by exchanging mail with post offices of other countries "by air with priority." Universal Postal Convention (1989) §19.3. In the U.S., outbound IALC is collected, sorted, and transported via the first class mail system to an international gateway. From the international gateway, USPS contracts with an international air carrier to transport the mail to the gateway office of a foreign post office. The foreign post office delivers IALC via its equivalent of USPS's

**Figure 2.** IALC, by regional destination, FY 1986

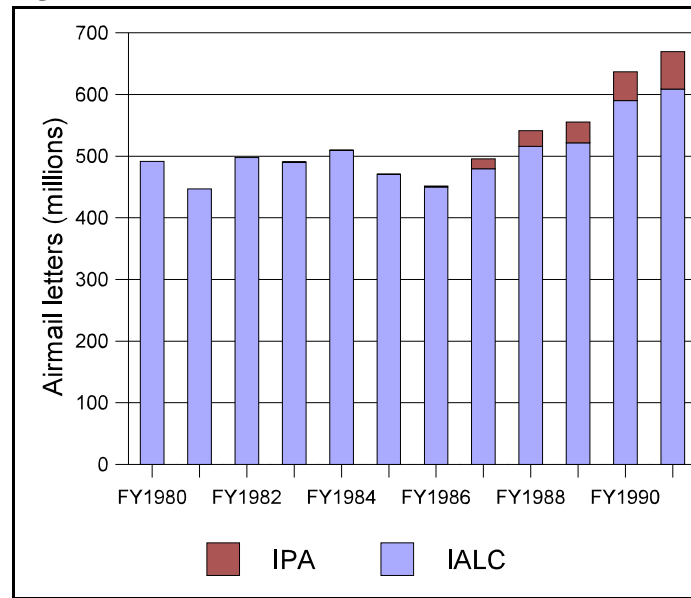


first class service. In some cases, IALC is transshipped via one or more intermediate post offices to the final destination post office.

Figure 2 shows the distribution of outbound IALC by world region in FY 1986. North American mail, to Canada and Mexico, accounts for about one third of U.S. international mail. Because North American mail exhibits substantially different cost characteristics from other international mail, our analysis focuses on *intercontinental* IALC mail only, that is, airmail letters to destinations other than Canada and Mexico. As shown in Figure 3, intercontinental mail volume has not fared well over the last decade, although traffic has picked up recently, especially with the help of the IPA discount.

To estimate the correct price for intercontinental IALC, we have looked at the three types of costs that can be attributed directly to international mail: domestic mail handling, international transport, and charges for foreign postal delivery ("terminal dues"). Following the practice of the Rate Commission, we have added a small allowance for contingencies (3.5 percent) in determining the total costs that are directly "attributable" to IALC mail. Overall, the Postal Service attributes two thirds of its total costs to specific mail classes. Since postal revenue must also cover the remaining one third, called "institutional costs," USPS sets postal rates that are, on average, 150 percent of attributable costs. The Rate Commission refers to this markup for institutional costs as "cost coverage." We have applied such a cost coverage factor to the estimated attributable costs for IALC. While reasonable men may always differ, the foregoing appears to be the

**Figure 3. IALC and IPA traffic, FY 1983-91**



most appropriate approach to determine fair and reasonable international postal rates absent an actual Rate Commission proceeding or a change in U.S. law.

*1. Domestic costs.* For each class and subclass of domestic mail, USPS reports cost data by cost segments and subsegments. Cost data for international mail, however, are reported as a whole, not by individual class. Hence, there are no publicly available cost accounts for IALC. This is not an insurmountable difficulty, however. Delivery cost data are unnecessary, since outbound international mail is not delivered by the USPS. Domestic transport costs can be approximated at 30¢ per pound, the cost saving USPS admits to if customers bring ISAL mail to an international gateway airport. In addition, costs can be specifically identified for IALC for supervisory work (cost segment 2, supervisors) and mail processing (cost segment 3, clerks and mail handlers) from certain internal, but public, USPS data. In these two cost segments, IALC mail generates costs of about \$0.17 and \$2.35 per pound, respectively. Finally, attributable overhead costs can reasonably be assumed to be the same for all classes of international mail, about 14¢ per pound (a minor item in any case).<sup>2</sup>

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<sup>2</sup> In addition to normal attributable overhead, IALC — as well as IPA and ISAL discussed later — should bear a portion of the significant costs of Postal Service participation in the Universal Postal Union, the International Post Corporation, and other international postal organizations. Marketing costs, such as sponsorship of the 1992 Olympic Games and international portions of postal seminars, should also be included. We cannot determine whether such extraordinary costs are correctly reflected in international mail accounts.

**Table 1.** Estimated intercontinental IALC rates, FY 1992

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Domestic costs, per lb	\$ 2.96
International transport, per lb	1.18
Terminal dues, per lb	4.36
Contingency, per lb	0.30
Attributable costs, per lb	8.79
First Class cost coverage (61.7%)	5.42
Fully allocated rate, per lb	\$ 14.21
Approximate first 1/2 ounce stamp rate	.43
Actual cost coverage	203%
Actual revenue, per lb	\$ 17.83
Actual first 1/2 ounce stamp rate	.50

Source: Appendix A, Table A7.

Notes: Costs and rates based on 0.75 ounce average weight

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In sum, identified domestic costs for IALC add up to at least \$2.96 per pound.

2. *International transport.* USPS purchases transportation for intercontinental mail from U.S. air carriers at rates set by the Department of Transportation.<sup>3</sup> DOT sets per ton-mile rates for four geographic rate zones: North America, Atlantic, Pacific, and Latin America. Costs vary from about 43¢ per pound to Central America to \$1.70 per pound to the Pacific Rim. Allowing for the regional distribution of intercontinental mail (Appendix B), the average transport cost for intercontinental IALC may be estimated at about \$1.18 per pound.

3. *Terminal dues.* The Postal Service also pays the destination post office for delivery of IALC from the airport to the addressee. In postal parlance, this charge is called "terminal dues." As with domestic mail, "inward" mail handling and delivery constitute a large fraction of end-to-end cost. Hence, terminal dues are quite important in determining the correct rate for international mail.

The Postal Service currently participates in three multilateral terminal dues schemes. In 1989, the Universal Postal Union (UPU) adopted a two tier terminal dues arrangement. If USPS ships more than 330,000 pounds of mail per year to a particular country, the *UPU high volume* rate applies; for letters, this is \$5.28 per pound for all countries. Otherwise, the *UPU low volume* charge applies, \$1.91 per pound for all countries. A third terminal dues scheme arises from a special arrangement worked out by the CEPT (Conference of European Postal and Telecommunications Administrations). Under the *CEPT scheme*, certain European

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<sup>3</sup> We have disregarded air conveyance dues. See Appendix A.

countries, Japan, Australia, and New Zealand charge terminal dues of \$0.19 per piece plus \$0.88 per pound, or about \$4.94 per pound, assuming an average intercontinental letter weighs 0.75 ounce. The CEPT agreement applies to roughly 50 percent of U.S. intercontinental IALC, while the UPU high volume and low volume rates apply to 26 and 24 percent of mail respectively. Overall, the average IALC terminal dues charge is about \$4.36 per pound.<sup>4</sup>

4. *Contingency and institutional costs.* As noted above, these attributable costs must be increased to allow for contingencies and a fair share of the institutional costs of the Postal Service. We have used the same contingency factor used by the Postal Rate Commission in the last general rate case, 3.5 percent. To account for institutional costs, we have used a cost coverage factor of 161.7 percent, the same as the Rate Commission applied to first class mail. In other words, we added to attributable costs an amount equal to 61.7% of attributable costs as IALC's appropriate contribution to institutional costs. There is no apparent reason why the cost coverage factor for international first class service should be more, or less, than that for domestic first class service. IALC outbound is collected, sorted, and transported by USPS via its domestic first class mail system; conversely, when USPS receives inbound IALC mail, it provides foreign mailers with delivery via the first class domestic mail system.

5. *Estimated rate.* As summarized in Table 1, it appears that the fully allocated cost per pound of intercontinental airmail letters in FY 1992 would be about \$14.21 per pound. Under the approach of the Postal Rate Commission, this cost would be fully reflected in the postage rate. To compare a per pound rate to normal international airmail rates, it must be converted to a half ounce rate. For the decade prior to the most recent IALC rate change (3 February 1991), intercontinental IALC postage rates were expressed in terms of a half ounce weight rate that was uniform for the first two ounces. Since the average weight per piece is only about 0.75 ounce, it is apparent that almost all intercontinental IALC must have been transported under this uniform half ounce rate. This half ounce rate rose from 31¢ in 1976 to 45¢ in April 1988. We can estimate that a uniform half ounce rate as low as 40¢ would still cover a fully allocated cost of \$14.21 for intercontinental IALC mail.<sup>5</sup>

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<sup>4</sup> Multilateral terminal dues schemes are quoted in Special Drawing Rights. The figures in the text are based upon the exchange rate of 31 December 1991 when one SDR equalled \$1.43. A fourth scheme applies only to Canadian mail and is beyond the scope of this study. The Canadian terminal dues scheme sets charges that depend upon the shape of envelopes (letter, flat, parcel), weight, etc. Finally, the Postal Service also has agreed to waive terminal dues payments with at least one post office (Switzerland).

<sup>5</sup> After FY 1986, public data released by USPS aggregates intercontinental and North American traffic and revenues. See Appendix B. If the average weight per piece was reasonably constant, changes in average revenues per piece and per pound should be proportional to changes in the half ounce rate. Available data up to FY 1987 appear to confirm this surmise. Appendix C. In FY 1986, a half ounce rate of 44¢ yielded revenues of about \$16.23 per pound. Appendix B, Table B3. Hence, we estimated the "half ounce rate" that would yield revenues of \$14.68 per

6. *Actual rate.* Today, the first half ounce stamp rate is 50¢, with lower charges for additional half ounces. We may estimate the current rate schedule to be approximately equivalent to a uniform rate of 47.5¢.<sup>6</sup> By the same reasoning as above, this rate implies revenue per pound of about \$17.83.<sup>7</sup> Such an amount represents an actual coverage of identified attributable costs of 203%, substantially more than the Rate Commission usually permits for a domestic postal service. We conclude that USPS's intercontinental IALC service is probably significantly overpriced.

## **B. Bulk and Presorted Mail (IPA)**

International Priority Airmail (IPA) is a discounted service for substantial quantities of international letter airmail. Like IALC, IPA is delivered in the country of destination by the foreign equivalent of first class postal service. There are two types of IPA: Sorted and Unsorted. For Sorted IPA, sorting and tender by the mailer are similar to domestic first class presort service (table 2). Unsorted IPA has no equivalent in domestic service. It is a bulk discount, roughly similar to an "unsorted presort" discount for first class domestic mail that would require only that the mailer meet certain minimum quantity rules. In the following, we have assumed the average weight per piece of IPA mail to be 1.25 ounce.<sup>8</sup>

*1. Domestic costs.* We have estimated the domestic costs for IPA in the same manner as for IALC. The major differences are as follows. First, as would be expected, postal cost data indicate that attributable mail processing costs (cost segment 3, clerks and mailhandlers) are substantially less for IPA mail than for IALC mail, \$0.44 per pound versus \$2.35 per pound, a difference of \$1.91 per

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pound as follows:  $\$14.21/\$16.23 \times 44¢ = 39.8¢$ . If, as in the most recent IALC rate, the first half ounce stamp rate is to be set higher than additional half ounce charges, a 40¢ uniform half ounce rate might be equivalent to a first half ounce stamp rate of about 42.5¢.

<sup>6</sup> In April 1988, USPS introduced declining rates for each additional half ounce after the first half ounce of intercontinental IALC. The first half ounce was priced at 50¢, the second at 45¢, the third at 39¢, and the fourth at 39¢. Since most intercontinental IALC probably falls in the first two weight steps, this tapered rate schedule is likely equivalent to a uniform half ounce rate of between 45¢ and 50¢.

<sup>7</sup> See Appendix C, table C3.

<sup>8</sup> This estimate is based upon the market perception of couriers. Appendix A, Table A8, also calculates the results for average IPA piece weights of 0.75, 1.0, and 1.5 ounces.



**Table 2.** Conditions for IPA versus First Class Presort

	First class presort	IPA sorted	IPA unsorted
Pickup	No	Yes (56 cities)	Yes (56 cities)
Minimum quantity	500 pieces	200 pieces/10 lbs	200 pieces/10 lbs
Minimum quantity per sorting zone	10 pieces per 5 digit zip code/50 per 3 digit code	6 pieces per country	None
Level of sorting	By 3 or 5 digit zip codes	By country; finer sort to Germany, Mexico, U.K.	Facing only

pound.<sup>9</sup> Second, identifiable supervisory costs (cost segment 2, supervisors) are also lower, 4¢ per pound versus 17¢ per pound. Third, USPS will pick up IPA mail at the mailer's premises, a service unavailable for regular IALC. We were unable to identify a specific item in the postal accounts associated with IPA pickup. However, the cost per pickup may be assumed to be similar to the cost per pickup for express mail. In the last rate case, the Rate Commission allowed a charge of \$4.50 per pickup for express mail. This amount, divided by an assumed average pickup weight of 50 pounds of IPA (an arbitrary guess), yields an additional charge to the mailer of 9¢ per pound.<sup>10</sup> In this way, domestic costs for IPA add up to about 91¢ per pound.

2. *International transport and terminal dues.* International transport costs are the same for IPA as for IALC, \$1.18 per pound. Terminal dues costs, however, are lower because the CEPT terminal dues scheme is based upon the number of pieces as well as the total weight. Since we have assumed a higher average weight per piece for IPA mail than for IALC mail, there are fewer pieces per pound in IPA mail. This lowers the CEPT terminal dues charge from \$4.94 per pound to \$3.31 per pound, reducing the overall average terminal dues to \$3.52 per pound.

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<sup>9</sup> For first class mail in FY 1991, the Rate Commission calculated that, looking only at those mail processing costs affected by presorting, attributable costs were 7.7¢ for nonsorted letters and 2.3¢ for sorted letters. Postal Rate and Fee Changes, 1990, Opinion and Recommended Decision, Dkt. R90-1 (4 Jan. 1991), Appendix F at 1. For unknown reasons, the fraction of mail processing costs saved by presorting appears to be greater for international letters than for domestic letters. This may reflect real differences between IALC and first class or errors in the (unrefined) postal data.

<sup>10</sup> Since the \$4.50 pickup fee is an additional charge to the mailer, we have added it to our cost calculations *after* allowing for contingency and institutional costs.

**Table 3.** Estimated IPA costs and rates, FY 1992

Per pound costs	W Europe (CEPT terminal dues)	Other major European countries	Japan & Australia	Inter- continental overall
Domestic costs	\$ 0.91	\$ 0.91	\$ 0.91	\$ 0.91
Intl transport	1.02	1.02	1.70	1.18
Terminal dues	3.31	5.28	3.13	3.52
Contingency (3.5%)	0.18	0.25	0.21	0.20
Attributable costs	5.43	7.47	6.14	5.78
Pickup charge	0.09	0.09	0.09	0.09
Fully allocated rate	\$ 8.88	\$ 12.16	\$ 10.01	\$ 9.47
Cost avoidance rate	10.39	13.67	11.52	10.98
Actual rate	7.51	9.87	7.51	8.25

Source: Appendix A, Table A8.

Notes: Costs and rates based on 1.25 ounce average piece weight where appropriate.

Fully allocated rate based on 162% cost coverage, same as domestic First Class Mail.

Cost avoidance rate based on fully allocated rate for intercontinental IALC (table 1) less difference in domestic costs between intercontinental IALC and IPA.

3. *Institutional costs.* The Rate Commission and the Postal Service calculate institutional costs for presort mail differently than for regular mail. First a rate is determined for regular service. Then, a presort "discount" is calculated based upon the mail processing costs (cost segment 3) avoided by the Postal Service by virtue of the mailer's presorting. As an alternative approach, one could also add up the individual attributable costs for the presorted mail and apply the same cost coverage factor as for regular mail. Generally, the "cost avoidance" approach results in a smaller presort discount than the fully allocated approach. In the following, we discuss both approaches in relation to Sorted and Unsorted IPA.<sup>11</sup>

4. *Estimated rates.* Under the cost avoidance approach, the "correct" rate for Sorted IPA with an average weight per piece of 1.25 ounces would be the cost of regular IALC (\$12.79)<sup>12</sup> less the mail processing costs saved (\$1.91 in cost segment 3) plus the cost of pickup (\$0.09), or \$10.98 per pound. Alternatively,

<sup>11</sup> See Postal Rate Commission, Postal Rate and Fee Changes, 1990, Opinion and Recommended Decision, Dkt. R90-1 (4 January 1991) at V-25 to V-45. More precisely, USPS supports a variation of the cost avoidance approach that would yield a smaller first class presort discount than that approved by the Rate Commission. The approach used in this study is a simplified version of the Commission's "Appendix F" approach, without taking into account increases in cost savings due to "piggyback" factors nor reductions in cost savings due to potential automation.

<sup>12</sup> This figure reflects the lower terminal dues that would be charged IALC if, like the IPA mail, it is assumed to have an average weight per piece of 1.25 ounces.

the sum of attributable costs (\$5.80) may be increased by a contingency allowance (3.5%) and cost coverage factor (161.7%) and added to a pickup charge (\$0.09), yielding a "fully allocated cost" of \$9.47 per pound. See Table 3.

Because of substantial differences in terminal dues and air transport costs, these global rates should be divided into geographic rate zones. Beginning 4 April 1992, USPS has indeed introduced three rate zones for Sorted IPA, corresponding to the three terminal dues schemes. Taking these factors into account, we estimate that the correct rate for the first IPA zone — to CEPT terminal dues countries in Western Europe, Japan, and Australia — is \$10.39 to \$11.52 under the cost avoidance approach depending upon destination (somewhat less under the fully allocated cost approach). Similarly, the cost avoidance rate for the second zone, UPU high volume countries, is \$13.67 to \$14.81. The corresponding rate for UPU low volume destinations, mainly developing countries, is \$7.04 to \$9.18.

Rates for Unsorted IPA are more difficult to quantify. In FY 1990, virtually all IPA mail was sorted, since the unsorted option was only introduced at the end of the fiscal year. Hence, we do not have any data on the cost of mail handling for Unsorted IPA. Unsorted IPA is faced and bundled by the mailer, which suggests some cost savings for USPS. It is, however, impossible to quantify these except to say that they must be less than \$1.91 per pound, the cost savings associated with Sorted IPA mail. We may say, therefore, that the cost avoidance rate for Unsorted IPA is between the cost avoidance rate for Sorted IPA (\$10.98) and the fully allocated cost of 1.25 ounce IALC (\$12.79).

5. *Actual rates.* On 4 April 1992, USPS changed its IPA rates. For Sorted IPA, USPS previously charged \$7.00 per pound to all destinations, far below costs. After 4 April, USPS introduced three rate zones which include charges for both the number of pieces and the total weight. The new rates range from \$7.51 to \$9.87 per pound for letters averaging 1.25 ounce. These rates still appear to represent a significant undercharge for mail shipped to major markets like Western Europe, Japan, and Australia and a significant overcharge for mail to the developing countries. The Unsorted IPA rate is now \$8.50 per pound worldwide; it also appears to be significantly below the correct rate. The differences between the actual and "correct" rates increase as the average weight per item decreases.

### **III. INTERNATIONAL THIRD CLASS BULK SERVICE**

International surface airlift (ISAL) is the bulk international airmail service for all types of printed matter. ISAL is forwarded from the U.S. with little postal handling and delivered by foreign post offices in their equivalent of third class postal service. ISAL is available to almost all countries except Canada. The minimum ISAL shipment is 50 pounds. All items must be faced, sorted by

**Table 4.** Estimated ISAL costs and rates for a 2 ounce piece

Domestic costs, per lb	\$ 0.46
International transport, per lb	0.84
Terminal dues, per lb	2.31
Contingency, per lb	0.13
Attributable costs, per lb	3.74
Domestic bulk 3d class cost cov (47%)	1.76
Fully allocated rate, per lb	\$ 5.50
Estimated 2 ounce rate	0.69
Actual revenue, per lb	\$ 2.56
Actual 2 ounce rate	0.32

Source: Appendix A, Table A9.

country, and bundled. Our analysis of ISAL costs is similar to that for first class international services. In the following, we note only the differences.

1. *Domestic costs.* According to postal data, domestic costs for ISAL are about one half that of IPA or about 46¢ per pound. There is no pickup service.

2. *International transport.* DOT establishes lower air freight rates for space available service than for priority air service. We have assumed that ISAL makes use of these lower rates, reducing international transport costs from about \$1.18 per pound for letter mail to about \$0.84 per pound for printed matter.

3. *Terminal dues.* In the CEPT terminal dues scheme, terminal dues depend upon the number of pieces per pound as well as the total weight. Since printed matter items are generally heavier than letters, the overall terminal dues charge per pound is lower. For example, a shipment of 2 ounce printed papers incurs a terminal dues charge of \$2.40 per pound compared to \$4.94 per pound for 0.75 ounce letters. The UPU high volume terminal dues scheme has different per pound charges for letters and printed papers. For printed papers averaging less than 5 ounces, the UPU high volume charge is based on both the number of items per pound and the number of pounds. For example, the terminal dues charge for a shipment of 2 ounce printed papers should be \$2.46 per pound. For printed papers weighing more than 5 ounces, the charge is \$1.34 per pound. To low traffic countries, the UPU terminal dues rate is the same as for letters, \$1.91 per pound. Taking into account the regional distribution of ISAL mail, terminal dues for ISAL appear to be about \$2.31 per pound for shipments of 2 ounce printed papers and \$1.42 per pound for shipments of 8 ounce printed papers.

4. *Contingency and institutional costs.* The Rate Commission applies the

same contingency factor to third class bulk mail as to first class mail, but uses a lower cost coverage factor, 147 percent. We have done likewise for ISAL.

5. *Estimated rates.* We have estimated the ISAL rate for 2 ounce and 8 ounce pieces, believing these are reasonably representative of light weight and heavy weight printed matter items. Our estimate for the 2 ounce rate is about \$5.50 per pound or 69¢ per piece (Table 4). An 8 ounce item shipment should cost about \$4.14 per pound overall. This average rate masks considerable variations in costs across regional destinations and terminal dues zones. For instance, 2 ounce service to the Pacific Rim should bear a rate of about 75¢ per item, whereas service to Central America might be priced at 50¢ per item.

6. *Actual rates.* As of 4 April 1992, USPS has instituted a worldwide ISAL rate of 32¢ per item weighing two ounces or less. This rate appears to be about half of actual cost. For items weighing more than 2 ounces, the ISAL rates are zoned by geographic destination. These rates vary from \$2.90 to \$3.25 per pound. For 8 ounce pieces, these rates cover about 80 percent of costs, although there is substantial variation in cost coverage depending upon destination. It should be noted that we do not have any indication of the actual average weight per piece for ISAL items exceeding 2 ounces. A judgement regarding the actual relationship between costs and revenues must await such information.

#### IV. CONCLUSIONS

The basic purpose of the rate making sections of the Postal Reorganization Act is to prevent the Postal Service from overcharging mailers who are captured by virtue of its legal monopoly and using those excess revenues to subsidize extra low rates in more competitive markets, to the detriment of private competitors and the market system as a whole. The foregoing analysis strongly suggests that this forbidden philosophy is currently guiding the Postal Service in setting international postal rates.

This analysis is only preliminary and approximate. In some cases, we have made reasonable assumptions to substitute for incomplete data. In other cases, we have not included clearly attributable costs, such as costs for marketing and administration of international mail services, because we do not know them. Firm conclusions, therefore, will require further data which can *only* be obtained from the Postal Service. Nonetheless, the following conclusions about intercontinental mail service appear sound. Compared to the currently accepted postal rate principles of fairness and reasonableness applied to domestic postal rates:

- international airmail letter rates for individual mailers are significantly too high;
- international bulk airmail letter services for businesses are significantly underpriced for key markets such as Western Europe, Japan, Australia, although they are likely overpriced for developing countries; and
- international bulk printed matter rates used by large businesses are very substantially underpriced, most particularly for items weighing under two ounces.



## APPENDICES



## GLOSSARY

AO. *Autres objets*. Postal items other than letters and cards. Primarily printed matter.

CEPT. Conference of European Postal and Telecommunications Administrations. Organization of European post offices. Developed a special terminal dues scheme agreed to by some CEPT post offices and non-CEPT post offices including the U.S., Japan, Australia, and New Zealand.

IALC. International Airmail for Letters and Cards. International equivalent of domestic first class service, currently 50¢ per half ounce.

Intercontinental mail. As opposed to North American mail. Mail to destinations other than Canada and Mexico.

IPA. International Priority Airmail. A bulk, first class international service. After 4 April 1992, rates will range between \$9.21 and \$11.15 per pound for letters averaging 0.75 ounce, for different geographic zones.

ISAL. International Surface Airlift. International equivalent of bulk third class mail for printed advertisements; 32¢ worldwide rate for pieces weighing two ounces or less. For pieces weighing more than 2 ounces, there are four geographic rate zones, apparently based on international air freight rates.

LC. *Lettres et cartes*. Letters and cards, the equivalent of U.S. first class mail.

SDR. Special Drawing Right. Unit of currency defined by the International Monetary Fund by reference to a group of major national currencies. On 31 December 1992, \$1.43 = 1 SDR.

Terminal dues. The charge post offices apply to each other for delivery of international mail from the gateway airport to the addressee. Usually defined in SDR's per pound, or per piece and per pound.

UPU. Universal Postal Union, a 168-member inter-governmental postal organization founded in 1874.

## APPENDIX A

### DERIVATION OF INTERNATIONAL POSTAL RATES

#### I. APPROACH OF THE ACT AND THE COMMISSION

The touchstone for any review of postal rates is the Postal Reorganization Act of 1970. This act defines accepted standards for assessing the fairness and reasonableness of postal rates. The Act requires the Postal Service "to apportion the costs of all postal operations to all users on a fair and equitable basis" and, hence, to provide "fair and reasonable" rates. 39 USC 101(d), 403. To ensure that rates are fair and reasonable, the Act requires the Postal Service to submit proposed changes in rates and classes to an independent agency, the Postal Rate Commission. The Rate Commission analyzes the proposals in light of justifications proffered by USPS and comments submitted by various interested parties. The last general rate case was "R90-1," which resulted in the 29 cent stamp.<sup>1</sup>

The basic concept of reasonable and equitable postal rates is simple. The Commission estimates the total cost of postal service that will be incurred during a year period roughly one year in the future. The Commission then recommends postal rates that will allow USPS to just break even during this "test year" period. It is assumed that USPS will make a little extra in the year before the "test year" and lose a little the year after. Overall, rates set in this manner keep the Postal Service going for about three years before a new rate increase is necessary.

The Commission is concerned not only about the overall revenue needs of the Postal Service, but also about the relationship between different postage rates. The Commission prevents USPS from overcharging customers bound by the postal monopoly (about 80 percent of postal services) or undercharging competitive services (to the detriment of private competing delivery services and their customers). To regulate the structure of postal rates, the Commission begins by examining costs that can be *attributed* to each class of postal service. For example, if the number of man hours devoted to sorting mail varies according to the amount of mail to be sorted, then this variable labor cost is *attributed* to the

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<sup>1</sup> R90-1 was decided by the Commission in January 1991. The Postal Service requested reconsideration of certain portions of the opinion, resulting in supplemental decisions in May 1991 and October 1991. In general, the May opinion "cleaned up" the January opinion overall, while the October opinion made only minor adjustments. In this paper, we shall use the May opinion and data unless otherwise indicated. Postal Rate Commission, Postal Rate and Fee Changes, Opinion and Further Recommended Decision, Dkt No. R90-1 (24 May 1991).

classes of the mail according to the number of pieces in each class. For other functions, such as transportation, costs might be distributed according to the weight of mail and distance shipped. Each allocated cost is projected ahead to the "test year," allowing for inflation, changes in mail volume, and so forth. Each allocated cost is also increased by a small *contingency factor* (3.5 percent in the last rate case) to allow for unpredictable factors. In total, about two thirds of all postal costs can be attributed to specific services or classes of mail.

The remaining one third of postal costs cannot be attributed in this manner. If a certain number of man hours must be devoted to the sorting function regardless of how much mail is sorted, this unattributable cost is deemed to be an *institutional* cost. Examples of costs that are primarily institutional in nature are central management, building costs, and research and development. Institutional costs are covered by charging postage rates that exceed the attributable costs of providing all mail service. Put another way, the revenues must more than "cover" attributable costs (i.e. the "cost coverage" factor must be greater than 100 percent) in order to contribute revenues needed to pay for institutional costs of the USPS.

In the last rate case, the "cost coverage" for all classes of mail came to 150 percent, that is, institutional costs were exactly one third of the total. Under the approach of the 1970 Act as interpreted by the Commission, the cost coverage varies for different classes of mail according to the Commission's best judgement of fairness, guided by various statutory criteria intended to protect small mailers, competitors, and the universal availability of postal service. The cost coverage for first class mail was 161.7 percent, reflecting the high "value of service" of first class service. The cost coverage of third class single piece mail (advertisements and other printed matter) was only 115.0% due to a lower value of service to the mailer and greater elasticity of demand.

## **II. CALCULATION OF INTERNATIONAL RATES**

In a domestic mail rate case, this approach is applied to a data base of attributable postal costs consisting of twenty "cost segments," such as "postmasters," "mail handlers," "buildings," etc. Each cost segment is composed of subsegments called components. The Postal Service also divides its services into various classes and subclasses and more minor rate categories. The end result of this approach is a matrix of about 130 cost subsegments distributed across approximately 35 classifications of mail service. This data base, however, is of only limited usefulness in developing the costs of international mail. Our derivation of international costs proceeded as follows:

*Table A1.* The costs of international mail as a whole were reported by the

Postal Service for FY 1990 in its *Cost and Revenue Analysis*. These are reproduced by cost segment in Table A1 and calculated on a per pound basis. Inbound as well as outbound weights were used; inbound weight for FY 1990 was estimated from FY 1989's Inbound Mail Survey, assuming the ratio of inbound to outbound mail was the same for FY 1990 as for FY 1989. It was assumed that the average costs per pound for IALC would be the same as for international mail as a whole for postmasters (Cost Segment 1), administration and regional operations (CS-19), and other accrued costs (CS-20).

*Tables A2 to A4.* These tables calculated domestic costs for IALC, IPA, and ISAL respectively. They are based on specific mail handling data (cost segments 2 and 3) identified from postal accounts as well as the per pound figures from Table A1. The calculations of domestic attributable costs also use a figure of 30¢ per pound for domestic transport (CS-14). This represents the discount USPS accords ISAL mail which is tendered at a gateway post office. USPS indicates that this discount is the domestic transport cost it saves for such mail.

The differential between full service rates and gateway/direct ship rates would remain at 30 cents per pound, still reflecting the cost savings in domestic transportation. [56 Fed. Reg. 61451 (3 December 1991)]

Finally, these tables roll forward FY 1990 costs to FY 1992, using either roll forward factors developed by the Rate Commission or an assumed cost growth rate of 3 percent per year.

*Table A5.* This table calculates the international air transport costs per pound for five global regions: Europe, Pacific Rim (Japan to New Zealand), Near East/Africa, Central America, and South America. This table uses the formula adopted by the Department of Transportation for the second half of calendar 1991. To convert ton-mile rates into per pound rates, typical interregional flight distances were used. For example, the New York to Frankfurt distance was assumed to be a typical flight distance for mail traveling between the U.S. and all European countries. DOT's priority rate was applied to IALC and IPA mail; the "space available" rate to ISAL mail. To compile a composite intercontinental figure, a distribution of mail among global aviation regions is used. This distribution is derived in Appendix B, Table B5.

*Table A6.* This table calculates terminal dues according to three multilateral terminal dues schemes: the Conference of European Postal and Telecommunications Administrations (CEPT) agreement, the Universal Postal Union high volume agreement (more than 150 metric tonnes per year in bilateral mail from the U.S.), and the UPU low volume agreement. In a manner similar to Table A5, a distribution of mail among global terminal dues regions is used, as derived in Appendix B, Table B5, to compile a composite intercontinental

figure.

*Tables A7 to A10.* These tables collect and summarize the foregoing calculations for IALC, IPA, and two weights of ISAL. Contingency factors and cost coverage factors reflecting institutional costs are also added. The resulting rates cover fully allocated costs. In the case of IPA mail (Table A8), "cost avoidance" rates are also calculated as explained in the main report. Note that these calculations, of necessity, depend upon certain assumptions about the average weight per item. Specifically, it is assumed that the average weight per IALC item is 0.75 ounce. For IPA, we have assumed average weights per piece of 0.75, 1.0, and 1.25 ounces. For ISAL mail in the 2 ounce and under rate category, we have assumed an average weight of exactly 2 ounces. For heavier weight ISAL, we have used 8 ounces as a reasonable weight per piece. While we believe these assumptions are reasonable, they must be checked against postal data.

### **III. SPECIAL CONSIDERATIONS FOR INTERNATIONAL MAIL**

#### **A. Per Piece versus per Pound Analysis**

In analyzing domestic mail, the Postal Rate Commission and USPS usually consider costs and revenues on a per piece basis. Nonetheless, the fact that postal prices vary so greatly in relation to weight suggests costs as well are closely related to weight (e.g., a 2 ounce letter is priced 80 percent more than a 1 ounce letter). In international postal operations, the most important costs, international air transport and the cost of foreign postal delivery ("terminal dues"), are explicitly expressed in terms of weight. Reflecting this cost structure, two of the three postal rates we are examining are quoted by the Postal Service as per pound rates (IPA and ISAL). The third rate, IALC, has historically been quoted in a half ounce rate that is uniform for the first two ounces (implying no piece component). For these reasons, we calculate costs and revenues on a weight basis.

#### **B. Transit charges and air conveyance dues**

If international airmail is shipped via the facilities of an intermediate post office, a second type of international transportation charge is incurred. The intermediate post office charges USPS *air conveyance dues* for air transportation that it underwrites. For surface mail forwarded by land or sea, the equivalent term is "transit charges." Air conveyance dues are established by the 1989 Universal Postal Convention at 0.568 SDR per tonne-kilometer, a figure which bears no relationship to the actual cost of air transportation on a given flight. Postal accounts are not known in sufficient detail to allow us to account for air conveyance dues, but they are believed to be a small fraction of total international

transport costs in any case.

### **C. Inbound Mail**

Our calculations do not take into account costs incurred by USPS to transport and deliver inbound international mail. These costs are even more difficult for the outsider to disaggregate than outbound costs. In any case, under the Universal Postal Convention, USPS specifically charges foreign post offices for the services. While UPU charges have not been well aligned with actual costs, the trend is towards cost based charges. In any case, there is no reason to believe that USPS loses money on inbound international mail. International terminal dues rates are supposedly set according to average international postal costs, and the USPS is a relatively low cost provider of delivery services among major post offices.

**TABLE A1. SELECTED MAIL CLASSES, COST SEGMENTS, FY 1990**

	Letters sealed parcels \$(000)	First class presort \$(000)	Intl mail \$(000)	Per Piece Costs			Per pound costs		
				Letters sealed parcels \$/pce	First class presort \$/pce	Intl mail \$/pce	Letters sealed parcels \$/lb	First class presort \$/lb	Intl mail (out/in) \$/lb
1 Postmasters	101,608	36,726	5,579	0.002	0.001	0.007	0.044	0.036	0.0141
2 Supervisors	715,532	168,557	27,212	0.013	0.006	0.034	0.312	0.166	0.0686
3 Clerks and mailhandlers	5,906,079	1,052,643	243,842	0.104	0.038	0.305	2.572	1.038	0.6144
4 Clerks, CAG-K offices	7,496	1,344	0	0.000	0.000	0.000	0.003	0.001	0.0000
6/7 City carriers, office/street	1,958,599	932,548	26,483	0.034	0.034	0.033	0.853	0.920	0.0667
8 Vehicle service drivers	18,052	7,970	2,000	0.000	0.000	0.003	0.008	0.008	0.0050
9 Special del. messengers	1,205	0	14,611	0.000	0.000	0.018	0.001	0.000	0.0368
10 Rural carriers	199,285	123,017	8,728	0.004	0.004	0.011	0.087	0.121	0.0220
11 Custodial services	425,479	84,576	16,809	0.007	0.003	0.021	0.185	0.083	0.0424
12 Motor vehicle service	39,263	12,166	2,871	0.001	0.000	0.004	0.017	0.012	0.0072
13 Miscellaneous op costs	3,485	1,695	103	0.000	0.000	0.000	0.002	0.002	0.0003
14 Transport	411,253	118,203	438,954	0.007	0.004	0.550	0.179	0.117	1.1060
15 Building occupancy costs	256,545	59,899	13,143	0.005	0.002	0.016	0.112	0.059	0.0331
16 Supplies and services	208,324	31,055	8,455	0.004	0.001	0.011	0.091	0.031	0.0213
17 R&D and engineering	0	0	0	0.000	0.000	0.000	0.000	0.000	0.0000
18 Admin. & regional ops.	889,668	221,104	35,293	0.016	0.008	0.044	0.387	0.218	0.0889
19 General management sys	0	0	0	0.000	0.000	0.000	0.000	0.000	0.0000
20 Other accrued expenses	223,836	42,146	10,392	0.004	0.002	0.013	0.097	0.042	0.0262
Total attributable cost	11,365,709	2,893,649	854,475	0.200	0.105	1.070	4.949	2.853	2.1530

**TABLE A1. SELECTED MAIL CLASSES, COST SEGMENTS, FY 1990**

	Letters sealed parcels	First class presort	Intl mail
Pieces (000)	56,787,789	27,584,597	798,266
Wt (000 lb)	2,296,696	1,014,181	248,614
Wt, inbound (000 lb)			148,254
Wt, in and out (000 lb)			396,868

Source: USPS, Cost and Revenue Analysis, FY 1990.

Notes: International mail cost per piece calculated based on outbound pieces only; cost per pound based on weight of inbound and outbound mail.

Inbound weight for FY 1989 was 135,909,000 lbs; inbound weight for FY 1990 assumed to experience same year to year increase as outbound (227.9 mil lb to 248.6 mil lb, Table B1).

Shaded per pound figures used in calculation of domestic costs for international services.



**TABLE A2. IALC, DOMESTIC COSTS, FY 1990 AND 1992**

Cost group	FY 1990 cost \$	FY 1990 cost \$/lb	Annual cost increase 1991	Annual cost increase 1992	FY 1992 cost \$/lb	Sources
Supervisors (CS-2)						
LIOCATT Act Code 1771	3,853,204					LIOCATT report ALA870P8, FY 1990 (7 Jan 91). PRC roll forward factors, R90-1.
LIOCATT Act Code 1772	214,395					
LIOCATT Act Code 1773	54,771					
LIOCATT Act Code 2770	725,065					
LIOCATT Act Code 3770	48,144					
LIOCATT Act Code 4770	87,721					
Subtotal CS-2	4,983,300	\$0.1552	4.98%	5.02%	\$0.1712	
Mail processing (CS-3)						
Variable Direct Labor						
Outbound letters	52,842,919	\$1.6462				LIOCATT Rpt ALA850P19 FY 1990 (3 Jan 1991). PRC roll forward factors. See notes.
Outbound cards, aero	2,844,737	\$0.0886				
Variable overhead	13,401,272	\$0.4175				
Subtotal CS-3	69,088,928	\$2.1523	4.43%	4.40%	\$2.3465	
Domestic Transport		\$0.3000			\$0.3000	See notes.
Attributable Overhead		\$0.1292	3.00%	3.00%	\$0.1371	CS-1, CS-18, CS-20 from Table A1.
<b>IALC, Domestic attrib cost</b>		<b>\$1.7204</b>			<b>\$2.9548</b>	

Notes: Weight of IALC from Table B1 32,100,000 pounds.

Variable overhead main processing cost assumes same ratio of Variable Direct Labor/Variable Overhead as for all Intl Mail (166,964/40,180, from CRA).

Domestic transport assumes discount of \$0.30/lb for tender of ISAL at gateway city; reflects cost-based saving of domestic air and surface transport.

**TABLE A3. IPA, DOMESTIC COSTS, FY 1990 AND 1992**

Cost group	FY 1990 cost \$	FY 1990 cost \$/lb	Annual cost increase 1991	Annual cost increase 1992	FY 1992 cost \$/lb	Sources
Supervisors (CS-2)						
LIOCATT Act Code 1750	10,537					LIOCATT report ALA870P8, FY 1990 (7 Jan 91). PRC roll forward factors, R90-1.
LIOCATT Act Code 2750	26,654					
LIOCATT Act Code 3750	0					
LIOCATT Act Code 4750	34,026					
Subtotal CS-2	71,217	\$0.0329	4.98%	5.02%	\$0.0362	
Mail processing (CS-3)						
Variable Direct labor	702,150	\$0.3242				LIOCATT Rpt ALA850P19 FY 1990 (3 Jan 1991) and PRC roll forward factors; see notes.
Variable Overhead	168,973	\$0.0780				
Subtotal CS-3	871,123	\$0.4022	4.43%	4.40%	\$0.4385	
Domestic Transport		\$0.3000			\$0.3000	See notes.
Attributable Overhead		\$0.1292	3.00%	3.00%	\$0.1371	CS-1, CS-18, CS-20 from Table A1.
<b>IPA, Domestic attrib cost</b>		\$0.7510			\$0.9118	

Notes: Weight of IPA from Table B2 2,166,000 pounds.

Variable overhead main processing cost assumes same ratio of Variable Direct Labor/Variable Overhead as for all Intl Mail (166,964/40,180, from CRA).

Domestic transport assumes discount of \$0.30/lb for tender of ISAL at gateway city; reflects cost-based saving of domestic air and surface transport.

**TABLE A4. ISAL, DOMESTIC COSTS, FY 1990 AND 1992**

Cost group	FY 1990 cost \$	FY 1990 cost \$/lb	Annual cost increase 1991	Annual cost increase 1992	FY 1992 cost \$/lb	Sources
Supervisors (CS-2)						
LIOCATT Act Code 1755	3,815					LIOCATT report ALA870P8, FY 1990 (7 Jan 91). PRC roll forward factors, R90-1.
LIOCATT Act Code 2755	13,304					
LIOCATT Act Code 3755	0					
LIOCATT Act Code 4755	3,642					
Subtotal CS-2	20,761	\$0.0018	4.98%	5.02%	\$0.0020	
Mail processing (CS-3)						
Variable Direct labor	178,060	\$0.0152				LIOCATT Rpt ALA850P19 FY 1990 (3 Jan 1991) and PRC roll forward factors; see notes.
Variable Overhead	42,850	\$0.0037				
Subtotal CS-3	220,910	\$0.0189	4.43%	4.40%	\$0.0206	
Domestic Transport		\$0.3000			\$0.3000	See notes.
Attributable Overhead		<u>\$0.1292</u>	<u>3.00%</u>	<u>3.00%</u>	<u>\$0.1371</u>	CS-1, CS-18, CS-20 from Table A1.
<b>ISAL, Domestic attrib cost</b>		\$0.4473			\$0.4596	

Notes: Weight of ISAL from Table B2 11,694,000 pounds.

Variable overhead main processing cost assumes same ratio of Variable Direct Labor/Variable Overhead as for all Intl Mail (166,964/40,180, from CRA).

Domestic transport assumes discount of \$0.30/lb for tender of ISAL at gateway city; reflects cost-based saving of domestic air and surface transport.

**TABLE A5. INTERNATIONAL MAIL, INTERNATIONAL TRANSPORT COSTS, FY 1992**

Postal region>	Europe	Pacific Rim	Near East Africa	Central America	South America	Weighted average
Aviation region>	Atlantic	Pacific	Atlantic	Latin Am	Latin Am	Intercon
<b>IALC/IPA</b>						
Airline service	Priority	Priority	Priority	Priority	Priority	Priority
Terminal charge \$/lb	\$0.3680	\$0.2316	\$0.3680	\$0.2153	\$0.2153	\$0.3124
Linehaul charge \$/ton-mi	\$0.3606	\$0.4264	\$0.3606	\$0.4105	\$0.4105	\$0.3839
Typical flight	NYC-FRA	SFO-HKG	NYC-CAI	MIA-GUA	MIA-RIO	
Flight length mi	3,640	6,900	5,625	1,020	4,180	4,429
<b>IALC/IPA, Intl trans /lb</b>	\$1.0243	\$1.7027	\$1.3822	\$0.4247	\$1.0732	\$1.1748
<b>ISAL</b>						
Airline service	Space avl	Space avl	Space avl	Space avl	Space avl	Space avl
Terminal charge \$/lb	\$0.3318	\$0.2004	\$0.3318	\$0.1644	\$0.1644	\$0.2692
Linehaul charge \$/ton-mi	\$0.2312	\$0.2629	\$0.2312	\$0.3134	\$0.3134	\$0.2534
Typical flight	NYC-FRA	SFO-HKG	NYC-CAI	MIA-GUA	MIA-RIO	
Flight length mi	3,640	6,900	5,625	1,020	4,180	4,537
<b>ISAL, Intl trans /lb</b>	\$0.7526	\$1.1074	\$0.9821	\$0.3242	\$0.8194	\$0.8422

Source: Dept. of Transportation, Order 91-12-24 App 1 (16 Dec 1991). (eff., 1 Jul to 31 Dec 1991).

Notes: Typical flights were chosen to generate average flights lengths. FY 1990 IALC air trans was \$1.2615/lb overall, \$102,696,000 (Account 53201)/IALC wt 81,407,000 lbs (all LC/AO/CP plus IPA). This average appears consistent with above, but does not take into account different costs to different destinations. FY 1990 ISAL air transportation per pound was \$ 0.5945 overall, \$ 6,896,000 (Account 53212)/ISAL wt of 11,600,000 lbs. This appears somewhat low compared to above. UPU air conveyance dues are 0.568 SDR per tonne/km, which converts to \$1.487 per ton/mi on 31 Dec 1991 (1 SDR = \$ 1.43). Distribution between regions from Table B5.

**TABLE A6. UPU AND CEPT TERMINAL DUES**

	Alternative Terminal Dues Schemes					Average Term. Dues	
	<u>UL</u>	<u>UH-B</u>	<u>UH-LC</u>	<u>UH-AO</u>	<u>CEPT</u>	<u>LC</u>	<u>AO</u>
<b>Formulae</b>							
Piece charge, SDR	0.0000	0.1430	0.0000	0.0000	0.1330		
Kg charge, SDR	2.9400	1.2584	8.1150	2.0580	1.3500		
Piece charge, US\$	0.0000	0.2046	0.0000	0.0000	0.1902		
Pound Charge, US\$	1.9116	0.8182	5.2763	1.3381	0.8778		
<b>Total Charge Per Pound (\$/lb)</b>							
0.50 oz.	1.9116	7.3639	7.3639	7.3639	6.9657	5.9573	6.0198
0.75 oz.	1.9116	5.1820	5.2763	5.1820	4.9364	4.3593	4.3724
1.00 oz.	1.9116	4.0910	5.2763	4.0910	3.9217	3.8317	3.5487
1.25 oz.	1.9116	3.4365	5.2763	3.4365	3.3129	3.5151	3.0545
1.50 oz.	1.9116	3.0001	5.2763	3.0001	2.9071	3.5151	2.9279
2.00 oz.	1.9116	2.4546	5.2763	2.4546	2.3997	3.0403	2.3131
8.00 oz.	1.9116	1.2273	5.2763	1.3381	1.2583	2.4467	1.4186
<b>Total Charge per Piece (\$)</b>							
0.30 oz.	0.0358	0.2199	0.2199	0.2199	0.2067	0.1725	0.1746
0.40 oz.	0.0478	0.2250	0.2250	0.2250	0.2122	0.1794	0.1814
0.50 oz.	0.0597	0.2301	0.2301	0.2301	0.2177	0.1862	0.1881
0.60 oz.	0.0717	0.2352	0.2352	0.2352	0.2232	0.1930	0.1949
0.70 oz.	0.0836	0.2403	0.2308	0.2403	0.2286	0.1973	0.2016
0.80 oz.	0.0956	0.2455	0.2638	0.2455	0.2341	0.2114	0.2083
0.90 oz.	0.1075	0.2506	0.2968	0.2506	0.2396	0.2254	0.2151
1.00 oz.	0.1195	0.2557	0.3298	0.2557	0.2451	0.2395	0.2218
1.10 oz.	0.1314	0.2608	0.3627	0.2608	0.2506	0.2535	0.2285
1.20 oz.	0.1434	0.2659	0.3957	0.2659	0.2561	0.2676	0.2353
1.30 oz.	0.1553	0.2710	0.4287	0.2710	0.2616	0.2816	0.2420
1.40 oz.	0.1673	0.2761	0.4617	0.2761	0.2671	0.2957	0.2487
1.50 oz.	0.1792	0.2813	0.4947	0.2813	0.2725	0.3098	0.2555

**TABLE A6. UPU AND CEPT TERMINAL DUES**

1.60 oz.	0.1912	0.2864	0.5276	0.2864	0.2780	0.3238	0.2622
1.70 oz.	0.2031	0.2915	0.5606	0.2915	0.2835	0.3379	0.2689
1.80 oz.	0.2151	0.2966	0.5936	0.2966	0.2890	0.3519	0.2757
1.90 oz.	0.2270	0.3017	0.6266	0.3017	0.2945	0.3660	0.2824
2.00 oz.	0.2389	0.3068	0.6595	0.3068	0.3000	0.3800	0.2891
3.00 oz.	0.3584	0.3580	0.9893	0.3580	0.3548	0.5206	0.3565
4.00 oz.	0.4779	0.4091	1.3191	0.4091	0.4097	0.6611	0.4238
5.00 oz.	0.5974	0.4602	1.6489	0.4602	0.4645	0.8017	0.4912
6.00 oz.	0.7168	0.5114	1.9786	0.5018	0.5194	0.9422	0.5558
7.00 oz.	0.8363	0.5625	2.3084	0.5854	0.5743	1.0828	0.6325
8.00 oz.	0.9558	0.6137	2.6382	0.6691	0.6291	1.2233	0.7093
9.00 oz.	1.0753	0.6648	2.9679	0.7527	0.6840	1.3639	0.7861
10.00 oz.	1.1947	0.7159	3.2977	0.8363	0.7388	1.5044	0.8629
11.00 oz.	1.3142	0.7671	3.6275	0.9199	0.7937	1.6450	0.9396
12.00 oz.	1.4337	0.8182	3.9573	1.0036	0.8486	1.7856	1.0164
16.00 oz.	1.9116	1.0228	5.2763	1.3381	1.0680	2.3478	1.3235

Source: UPU Convention Art. 74, Detailed Regulations, Art. 187.

Notes: Terminal dues defined in SDRs; exchange rate date is 31 December 1991 (1 SDR = \$1.43).

Distribution among regions based on keys derived in Table B5.

Alternative terminal dues schemes are defined as follows:

UL = UPU LOW rate for mail sent to countries to which a post office sends less than 330,000 lbs of mail per year.

UH-B = UPU BASE for calculating alternatives to UH-LC and UH-AO rates.

UH-LC = UPU rates for LETTERS AND CARDS sent to countries to which a post office sends more than 330,000 lbs. per year; superseded by UH-B for if average piece weight falls below 0.64 oz.

UH-AO = UPU rates for PRINTED PAPER AND SMALL PARCELS sent to countries to which a post office sends more than 330,000 lbs. per year; superseded by UH-B for if average piece weight falls below 5.03 oz.

**TABLE A7. IALC, COSTS AND REVENUES**

Postal Region > Terminal dues >	Europe			Pacific Rim			Near East/Africa		C America	South America		Average
	<u>CEPT</u>	<u>UH-LC</u>	<u>UL</u>	<u>CEPT</u>	<u>UH-LC</u>	<u>UL</u>	<u>UH-LC</u>	<u>UL</u>	<u>UL</u>	<u>UH-LC</u>	<u>UL</u>	
<b>0.75 OUNCE PIECE</b>												
<b>Fully Allocated Rate (\$/lb)</b>												
Domestic Attrib Cost	\$2.955	\$2.955	\$2.955	\$2.955	\$2.955	\$2.955	\$2.955	\$2.955	\$2.955	\$2.955	\$2.955	\$2.955
Intl Transport	\$1.024	\$1.024	\$1.024	\$1.703	\$1.703	\$1.703	\$1.382	\$1.382	\$0.425	\$1.073	\$1.073	\$1.175
Intl Terminal Dues	\$4.936	\$5.276	\$1.912	\$4.936	\$5.276	\$1.912	\$5.276	\$1.912	\$1.912	\$5.276	\$1.912	\$4.359
Contingency (3.5%)	\$0.312	\$0.324	\$0.206	\$0.336	\$0.348	\$0.230	\$0.336	\$0.219	\$0.185	\$0.326	\$0.208	\$0.297
Total Attrib Cost	\$9.227	\$9.579	\$6.097	\$9.930	\$10.281	\$6.799	\$9.950	\$6.467	\$5.476	\$9.630	\$6.147	\$8.786
Cost coverage (161.7%)	\$5.693	\$5.910	\$3.762	\$6.127	\$6.344	\$4.195	\$6.139	\$3.990	\$3.379	\$5.942	\$3.793	\$5.421
Fully allocated rate	\$14.921	\$15.490	\$9.859	\$16.056	\$16.625	\$10.994	\$16.089	\$10.458	\$8.855	\$15.572	\$9.940	\$14.207
<b>Actual rate (\$/lb)</b>												
Approx rate, 1 lb	\$17.825	\$17.825	\$17.825	\$17.825	\$17.825	\$17.825	\$17.825	\$17.825	\$17.825	\$17.825	\$17.825	\$17.825
Approx cost coverage	193%	186%	292%	180%	173%	262%	179%	276%	326%	185%	290%	203%

**TABLE A7. IALC, COSTS AND REVENUES**

<b>ALTERNATIVE AVE WT/PCE</b>	<b>1.0 OZ</b>		<b>1.25 OZ</b>		<b>1.5 OZ</b>	
Postal Region > Terminal dues >	Europe <u>CEPT</u>	Pacific Rim <u>CEPT</u>	Europe <u>CEPT</u>	Pacific Rim <u>CEPT</u>	Europe <u>CEPT</u>	Pacific Rim <u>CEPT</u>
<b>Fully Allocated Rate (\$/lb)</b>						
Domestic Attrib Cost	\$2.955	\$2.955	\$2.955	\$2.955	\$2.955	\$2.955
Intl Transport	\$1.024	\$1.703	\$1.024	\$1.703	\$1.024	\$1.703
Intl Terminal Dues	\$3.922	\$3.922	\$3.313	\$3.313	\$2.907	\$2.907
Contingency (3.5%)	\$0.277	\$0.300	\$0.255	\$0.279	\$0.241	\$0.265
Total Attrib Cost	\$8.177	\$8.879	\$7.547	\$8.249	\$7.127	\$7.829
Cost coverage (161.7%)	\$5.045	\$5.479	\$4.657	\$5.090	\$4.397	\$4.831
Fully allocated rate	\$13.223	\$14.358	\$12.204	\$13.339	\$11.525	\$12.660
<b>Actual rate (\$/lb)</b>						
Approx rate, 1 lb	\$17.825	\$17.825	\$17.825	\$17.825	\$17.825	\$17.825
Approx cost coverage	218%	201%	236%	216%	250%	228%

Sources: Tables A2 (domestic costs), A5 (international transport), A6 (terminal dues), B5 (distribution among geographical and terminal dues areas), and C3 (approximate actual rate, 1 lb).

Notes: In developing the fully allocated rate, the cost coverage factor is the same as used for domestic First Class Mail by the Postal Rate Commission in R90-1, Opinion and Further Recommended Decision (24 May 1991). A cost coverage of 161.7% implies an institutional cost equal to 61.7% of "Total Attributable Cost."

As average weight per piece increases, the only change in per pound costs that can be calculated appears in CEPT terminal dues. Possible decreases in per pound domestic costs cannot be calculated and are likely small, due to the minimal mail handling.

Possible decreases in actual revenue per pound for higher average weight pieces cannot be calculated because of the absence of data on the distribution of mail by weight step.



**TABLE A8. IPA, COSTS AND REVENUES**

Postal Region > Terminal dues >	Europe			Pacific Rim			Near East/Africa		C America	South America		Average
	<u>CEPT</u>	<u>UH-LC</u>	<u>UL</u>	<u>CEPT</u>	<u>UH-LC</u>	<u>UL</u>	<u>UH-LC</u>	<u>UL</u>	<u>UL</u>	<u>UH-LC</u>	<u>UL</u>	
<b><u>0.75 OUNCE PIECE</u></b>												
<b>Fully Allocated Rate (\$/lb)</b>												
Domestic Attrib Cost	\$0.912	\$0.912	\$0.912	\$0.912	\$0.912	\$0.912	\$0.912	\$0.912	\$0.912	\$0.912	\$0.912	\$0.912
Intl Transport	\$1.024	\$1.024	\$1.024	\$1.703	\$1.703	\$1.703	\$1.382	\$1.382	\$0.425	\$1.073	\$1.073	\$1.175
Intl Terminal Dues	\$4.936	\$5.276	\$1.912	\$4.936	\$5.276	\$1.912	\$5.276	\$1.912	\$1.912	\$5.276	\$1.912	\$4.359
Contingency (3.5%)	\$0.241	\$0.252	\$0.135	\$0.264	\$0.276	\$0.158	\$0.265	\$0.147	\$0.114	\$0.254	\$0.136	\$0.226
Total Attrib Cost	\$7.113	\$7.465	\$3.982	\$7.815	\$8.167	\$4.684	\$7.835	\$4.353	\$3.362	\$7.516	\$4.033	\$6.671
Cost coverage (161.7%)	\$4.389	\$4.606	\$2.457	\$4.822	\$5.039	\$2.890	\$4.834	\$2.686	\$2.074	\$4.637	\$2.488	\$4.116
Subtotal	\$11.502	\$12.071	\$6.439	\$12.637	\$13.206	\$7.575	\$12.670	\$7.038	\$5.436	\$12.153	\$6.521	\$10.788
Pickup charge	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090
Fully allocated rate	\$11.592	\$12.161	\$6.529	\$12.727	\$13.296	\$7.665	\$12.760	\$7.128	\$5.526	\$12.243	\$6.611	\$10.878
<b>Cost Avoidance Rate (\$/lb)</b>												
IALC rate	\$14.921	\$15.490	\$9.859	\$16.056	\$16.625	\$10.994	\$16.089	\$10.458	\$8.855	\$15.572	\$9.940	\$14.207
- IALC mail proc cost	(\$2.347)	(\$2.347)	(\$2.347)	(\$2.347)	(\$2.347)	(\$2.347)	(\$2.347)	(\$2.347)	(\$2.347)	(\$2.347)	(\$2.347)	(\$2.347)
+ IPA mail proc cost	\$0.438	\$0.438	\$0.438	\$0.438	\$0.438	\$0.438	\$0.438	\$0.438	\$0.438	\$0.438	\$0.438	\$0.438
+ Pickup charge	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090
"Cost avoided" rate	\$13.103	\$13.672	\$8.040	\$14.238	\$14.807	\$9.176	\$14.271	\$8.639	\$7.037	\$13.754	\$8.122	\$12.389
<b>Actual rate (\$/lb)</b>												
Per piece	\$0.200	\$0.150	\$0.150	\$0.200	\$0.150	\$0.150	\$0.150	\$0.150	\$0.150	\$0.150	\$0.150	\$0.176
Per pound	\$4.950	\$7.950	\$6.150	\$4.950	\$7.950	\$6.150	\$7.950	\$6.150	\$6.150	\$7.950	\$6.150	\$5.994
Actual rate, 1 lb	\$9.217	\$11.150	\$9.350	\$9.217	\$11.150	\$9.350	\$11.150	\$9.350	\$9.350	\$11.150	\$9.350	\$9.749

**TABLE A8. IPA, COSTS AND REVENUES**

Postal Region > Terminal dues >	Europe			Pacific Rim			Near East/Africa		C America	South America		Average
	<u>CEPT</u>	<u>UH-LC</u>	<u>UL</u>	<u>CEPT</u>	<u>UH-LC</u>	<u>UL</u>	<u>UH-LC</u>	<u>UL</u>	<u>UL</u>	<u>UH-LC</u>	<u>UL</u>	
<b>1.0 OUNCE PIECE</b>												
<b>Fully Allocated Rate (\$/lb)</b>												
Domestic Attrib Cost	\$0.912	\$0.912	\$0.912	\$0.912	\$0.912	\$0.912	\$0.912	\$0.912	\$0.912	\$0.912	\$0.912	\$0.912
Intl Transport	\$1.024	\$1.024	\$1.024	\$1.703	\$1.703	\$1.703	\$1.382	\$1.382	\$0.425	\$1.073	\$1.073	\$1.175
Intl Terminal Dues	\$3.922	\$5.276	\$1.912	\$3.922	\$5.276	\$1.912	\$5.276	\$1.912	\$1.912	\$5.276	\$1.912	\$3.832
Contingency (3.5%)	\$0.205	\$0.252	\$0.135	\$0.229	\$0.276	\$0.158	\$0.265	\$0.147	\$0.114	\$0.254	\$0.136	\$0.207
Total Attrib Cost	\$6.063	\$7.465	\$3.982	\$6.765	\$8.167	\$4.684	\$7.835	\$4.353	\$3.362	\$7.516	\$4.033	\$6.125
Cost coverage (161.7%)	\$3.741	\$4.606	\$2.457	\$4.174	\$5.039	\$2.890	\$4.834	\$2.686	\$2.074	\$4.637	\$2.488	\$3.779
Subtotal	\$9.804	\$12.071	\$6.439	\$10.939	\$13.206	\$7.575	\$12.670	\$7.038	\$5.436	\$12.153	\$6.521	\$9.905
Pickup charge	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090
Fully allocated rate	\$9.894	\$12.161	\$6.529	\$11.029	\$13.296	\$7.665	\$12.760	\$7.128	\$5.526	\$12.243	\$6.611	\$9.995
<b>Cost Avoidance Rate (\$/lb)</b>												
IALC rate	\$13.223	\$15.490	\$9.859	\$14.358	\$16.625	\$10.994	\$16.089	\$10.458	\$8.855	\$15.572	\$9.940	\$13.324
- IALC mail proc cost	(\$2.347)	(\$2.347)	(\$2.347)	(\$2.347)	(\$2.347)	(\$2.347)	(\$2.347)	(\$2.347)	(\$2.347)	(\$2.347)	(\$2.347)	(\$2.347)
+ IPA mail proc cost	\$0.438	\$0.438	\$0.438	\$0.438	\$0.438	\$0.438	\$0.438	\$0.438	\$0.438	\$0.438	\$0.438	\$0.438
+ Pickup charge	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090
"Cost avoided" rate	\$11.405	\$13.672	\$8.040	\$12.540	\$14.807	\$9.176	\$14.271	\$8.639	\$7.037	\$13.754	\$8.122	\$11.506
<b>Actual rate (\$/lb)</b>												
Per piece	\$0.200	\$0.150	\$0.150	\$0.200	\$0.150	\$0.150	\$0.150	\$0.150	\$0.150	\$0.150	\$0.150	
Per pound	\$4.950	\$7.950	\$6.150	\$4.950	\$7.950	\$6.150	\$7.950	\$6.150	\$6.150	\$7.950	\$6.150	
Actual rate, 1 lb	\$8.150	\$10.350	\$8.550	\$8.150	\$10.350	\$8.550	\$10.350	\$8.550	\$8.550	\$10.350	\$8.550	\$8.810

**TABLE A8. IPA, COSTS AND REVENUES**

Postal Region > Terminal dues >	Europe			Pacific Rim			Near East/Africa		C America	South America		Average
	<u>CEPT</u>	<u>UH-LC</u>	<u>UL</u>	<u>CEPT</u>	<u>UH-LC</u>	<u>UL</u>	<u>UH-LC</u>	<u>UL</u>	<u>UL</u>	<u>UH-LC</u>	<u>UL</u>	
<b>1.25 OUNCE PIECE</b>												
<b>Fully Allocated Rate (\$/lb)</b>												
Domestic Attrib Cost	\$0.912	\$0.912	\$0.912	\$0.912	\$0.912	\$0.912	\$0.912	\$0.912	\$0.912	\$0.912	\$0.912	\$0.912
Intl Transport	\$1.024	\$1.024	\$1.024	\$1.703	\$1.703	\$1.703	\$1.382	\$1.382	\$0.425	\$1.073	\$1.073	\$1.175
Intl Terminal Dues	\$3.313	\$5.276	\$1.912	\$3.313	\$5.276	\$1.912	\$5.276	\$1.912	\$1.912	\$5.276	\$1.912	\$3.515
Contingency (3.5%)	\$0.184	\$0.252	\$0.135	\$0.207	\$0.276	\$0.158	\$0.265	\$0.147	\$0.114	\$0.254	\$0.136	\$0.196
Total Attrib Cost	\$5.433	\$7.465	\$3.982	\$6.135	\$8.167	\$4.684	\$7.835	\$4.353	\$3.362	\$7.516	\$4.033	\$5.798
Cost coverage (161.7%)	\$3.352	\$4.606	\$2.457	\$3.785	\$5.039	\$2.890	\$4.834	\$2.686	\$2.074	\$4.637	\$2.488	\$3.577
Subtotal	\$8.785	\$12.071	\$6.439	\$9.920	\$13.206	\$7.575	\$12.670	\$7.038	\$5.436	\$12.153	\$6.521	\$9.375
Pickup charge	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090
Fully allocated rate	\$8.875	\$12.161	\$6.529	\$10.010	\$13.296	\$7.665	\$12.760	\$7.128	\$5.526	\$12.243	\$6.611	\$9.465
<b>Cost Avoidance Rate (\$/lb)</b>												
IALC rate	\$12.204	\$15.490	\$9.859	\$13.339	\$16.625	\$10.994	\$16.089	\$10.458	\$8.855	\$15.572	\$9.940	\$12.794
- IALC mail proc cost	(\$2.347)	(\$2.347)	(\$2.347)	(\$2.347)	(\$2.347)	(\$2.347)	(\$2.347)	(\$2.347)	(\$2.347)	(\$2.347)	(\$2.347)	(\$2.347)
+ IPA mail proc cost	\$0.438	\$0.438	\$0.438	\$0.438	\$0.438	\$0.438	\$0.438	\$0.438	\$0.438	\$0.438	\$0.438	\$0.438
+ Pickup charge	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090
"Cost avoided" rate	\$10.386	\$13.672	\$8.040	\$11.521	\$14.807	\$9.176	\$14.271	\$8.639	\$7.037	\$13.754	\$8.122	\$10.976
<b>Actual rate (\$/lb)</b>												
Per piece	\$0.200	\$0.150	\$0.150	\$0.200	\$0.150	\$0.150	\$0.150	\$0.150	\$0.150	\$0.150	\$0.150	
Per pound	\$4.950	\$7.950	\$6.150	\$4.950	\$7.950	\$6.150	\$7.950	\$6.150	\$6.150	\$7.950	\$6.150	
Actual rate, 1 lb	\$7.510	\$9.870	\$8.070	\$7.510	\$9.870	\$8.070	\$9.870	\$8.070	\$8.070	\$9.870	\$8.070	\$8.247

**TABLE A8. IPA, COSTS AND REVENUES**

Postal Region > Terminal dues >	Europe			Pacific Rim			Near East/Africa		C America	South America		Average
	<u>CEPT</u>	<u>UH-LC</u>	<u>UL</u>	<u>CEPT</u>	<u>UH-LC</u>	<u>UL</u>	<u>UH-LC</u>	<u>UL</u>	<u>UL</u>	<u>UH-LC</u>	<u>UL</u>	
<b>1.5 OUNCE PIECE</b>												
<b>Fully Allocated Rate (\$/lb)</b>												
Domestic Attrib Cost	\$0.912	\$0.912	\$0.912	\$0.912	\$0.912	\$0.912	\$0.912	\$0.912	\$0.912	\$0.912	\$0.912	\$0.912
Intl Transport	\$1.024	\$1.024	\$1.024	\$1.703	\$1.703	\$1.703	\$1.382	\$1.382	\$0.425	\$1.073	\$1.073	\$1.175
Intl Terminal Dues	\$2.907	\$5.276	\$1.912	\$2.907	\$5.276	\$1.912	\$5.276	\$1.912	\$1.912	\$5.276	\$1.912	\$3.304
Contingency (3.5%)	\$0.170	\$0.252	\$0.135	\$0.193	\$0.276	\$0.158	\$0.265	\$0.147	\$0.114	\$0.254	\$0.136	\$0.189
Total Attrib Cost	\$5.013	\$7.465	\$3.982	\$5.715	\$8.167	\$4.684	\$7.835	\$4.353	\$3.362	\$7.516	\$4.033	\$5.579
Cost coverage (161.7%)	\$3.093	\$4.606	\$2.457	\$3.526	\$5.039	\$2.890	\$4.834	\$2.686	\$2.074	\$4.637	\$2.488	\$3.442
Subtotal	\$8.105	\$12.071	\$6.439	\$9.241	\$13.206	\$7.575	\$12.670	\$7.038	\$5.436	\$12.153	\$6.521	\$9.022
Pickup charge	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090
Fully allocated rate	\$8.195	\$12.161	\$6.529	\$9.331	\$13.296	\$7.665	\$12.760	\$7.128	\$5.526	\$12.243	\$6.611	\$9.112
<b>Cost Avoidance Rate (\$/lb)</b>												
IALC rate	\$11.525	\$15.490	\$9.859	\$12.660	\$16.625	\$10.994	\$16.089	\$10.458	\$8.855	\$15.572	\$9.940	\$12.441
- IALC mail proc cost	(\$2.347)	(\$2.347)	(\$2.347)	(\$2.347)	(\$2.347)	(\$2.347)	(\$2.347)	(\$2.347)	(\$2.347)	(\$2.347)	(\$2.347)	(\$2.347)
+ IPA mail proc cost	\$0.438	\$0.438	\$0.438	\$0.438	\$0.438	\$0.438	\$0.438	\$0.438	\$0.438	\$0.438	\$0.438	\$0.438
+ Pickup charge	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090	\$0.090
"Cost avoided" rate	\$9.707	\$13.672	\$8.040	\$10.842	\$14.807	\$9.176	\$14.271	\$8.639	\$7.037	\$13.754	\$8.122	\$10.623
<b>Actual rate (\$/lb)</b>												
Per piece	\$0.200	\$0.150	\$0.150	\$0.200	\$0.150	\$0.150	\$0.150	\$0.150	\$0.150	\$0.150	\$0.150	
Per pound	\$4.950	\$7.950	\$6.150	\$4.950	\$7.950	\$6.150	\$7.950	\$6.150	\$6.150	\$7.950	\$6.150	
Actual rate, 1 lb	\$7.083	\$9.550	\$7.750	\$7.083	\$9.550	\$7.750	\$9.550	\$7.750	\$7.750	\$9.550	\$7.750	\$7.871

## TABLE A8. IPA, COSTS AND REVENUES

Sources: Tables A2 (domestic IALC costs), A3 (domestic IPA costs), A5 (international transport), A6 (terminal dues), A7 (IALC fully allocated rates), B5 (distribution among geographical and terminal dues areas), and C1 (actual rates).

Notes: In developing the fully allocated rate, the cost coverage factor is the same as used for domestic First Class Mail by the Postal Rate Commission in R90-1, Opinion and Further Recommended Decision (24 May 1991). A cost coverage of 161.7% implies an institutional cost equal to 61.7% of "Total Attributable Cost."

IPA service includes pickup at mailer's premises. Pickup charge, implicitly included in IPA rate, calculated as equal to \$4.50 pickup charge approved for domestic express mail (\$4.50) in R90-1, divided by an average shipment of 50 pounds, or \$0.09 per pound (assumes all IPA shipments are picked up).

As average weight per piece increases, the only change in per pound costs that can be calculated appears in CEPT terminal dues. Possible decreases in per pound domestic costs cannot be calculated and are likely small, due to the minimal mail handling.

Possible decreases in actual revenue per pound for higher average weight pieces cannot be calculated because of the absence of data on the distribution of mail by weight step.

### TABLE A9. ISAL, COSTS AND REVENUES

[illegible]

**TABLE A9. ISAL, COSTS AND REVENUES**

Postal Region > Terminal dues >	Europe			Pacific Rim			Near East/Africa		C America	South America		Average
	<u>CEPT</u>	<u>UH-AO</u>	<u>UL</u>	<u>CEPT</u>	<u>UH-AO</u>	<u>UL</u>	<u>UH-AO</u>	<u>UL</u>	<u>UL</u>	<u>UH-AO</u>	<u>UL</u>	
<b>8.0 OUNCE PIECE</b>												
<b>Fully Allocated Rate (\$/lb)</b>												
Domestic Attrib Cost	\$0.460	\$0.460	\$0.460	\$0.460	\$0.460	\$0.460	\$0.460	\$0.460	\$0.460	\$0.460	\$0.460	\$0.460
Intl Transport	\$0.753	\$0.753	\$0.753	\$1.107	\$1.107	\$1.107	\$0.982	\$0.982	\$0.324	\$0.819	\$0.819	\$0.842
Intl Terminal Dues	\$1.258	\$1.338	\$1.912	\$1.258	\$1.338	\$1.912	\$1.338	\$1.912	\$1.912	\$1.338	\$1.912	\$1.419
Contingency (3.5%)	\$0.086	\$0.089	\$0.109	\$0.099	\$0.102	\$0.122	\$0.097	\$0.117	\$0.094	\$0.092	\$0.112	\$0.095
Total Attrib Cost	\$2.557	\$2.640	\$3.233	\$2.924	\$3.007	\$3.600	\$2.877	\$3.471	\$2.790	\$2.709	\$3.302	\$2.816
Cost coverage (147.0%)	\$1.202	\$1.241	\$1.520	\$1.374	\$1.413	\$1.692	\$1.352	\$1.631	\$1.311	\$1.273	\$1.552	\$1.323
Fully allocated rate	\$3.759	\$3.880	\$4.753	\$4.299	\$4.420	\$5.293	\$4.229	\$5.102	\$4.101	\$3.982	\$4.854	\$4.139
<b>Actual rate (\$/lb)</b>												
Rate/lb	\$2.900	\$2.900	\$2.900	\$3.250	\$3.250	\$3.250	\$4.200	\$4.200	\$3.250	\$3.250	\$3.250	\$3.180

Sources: Tables A4 (domestic cost), A5 (international transport), A6 (terminal dues), B5 (distribution among geographical and terminal dues areas), and C1 (actual rate).

Notes: In developing the fully allocated rate, the cost coverage factor is the same as used for domestic Third Class Regular Rate Bulk mail by the Postal Rate Commission in R90-1, Opinion and Further Recommended Decision (24 May 1991). A cost coverage of 147.0% implies an institutional cost equal to 47.0% of "Total Attributable Cost."

As average weight per piece increases to 1.0 and 1.25 ounce, the only change in per pound costs that can be calculated appears in CEPT terminal dues. Possible decreases in per pound domestic costs cannot be calculated and are likely small, due to the minimal mail handling.

Possible decreases in actual revenue per pound for higher average weight pieces cannot be calculated because of the absence of data on the distribution of mail by weight step.





## APPENDIX B

### DISAGGREGATION OF INTERNATIONAL POSTAL TRAFFIC

In order to analyze international postal service properly, it is necessary to disaggregate traffic by regional destination because both air transportation costs and terminal dues vary by destination. These two items account for about three quarters of attributable costs. In particular, it is desirable to distinguish *North American* mail (Canada and Mexico) from *intercontinental* mail (all other mail). North American mail constitutes about one third of U.S. outbound mail; it is heavier than other mail and differs markedly in both cost and rate considerations.

In the following tables, we have *estimated* intercontinental traffic disaggregated by major airline regions and by terminal dues regions. In the main report, we have used this information for two purposes:

- to develop average cost figures for intercontinental mail, permitting an easier comparison with existing rates; and
- to derive the basic traffic trends experienced by intercontinental LC airmail.

The first purpose will be affected only slightly by small errors in the distribution factors developed in this appendix. The second purpose is more susceptible to errors in assumptions, but traffic history is not closely related to the cost conclusions of this main study. Rather traffic history is included to provide background information for interpreting the cost figures.

Essentially, we have begun with the standard RPW report and then used two more detailed FY 1986 reports to develop percentage distribution factors. We have assumed that the average weight per piece for North American LC mail, on the one hand, and intercontinental LC airmail, on the other hand, have remained constant from FY 1986 to FY 1991. This assumption allows us to separate intercontinental IALC from North American IALC. It should be noted that the two FY 1986 reports do not correlate perfectly with the RPW report for that year nor with each other. Hence, the estimates derived in this appendix must be regarded as rough approximations, not precise calculations. Notes on specific tables follow:

*Table B1.* USPS's standard statistical report is the "Revenue, Pieces, and Weight" or "RPW" report. RPW reports do not identify international traffic by destination. In the fourth quarter of FY 1987, the RPW report was revised by

aggregating all North American LC mail with intercontinental LC airmail as "international air LC." Until 1987 Q4, North American LC traffic was apparently reported as "surface LC" mail, regardless of whether it travelled by air or land, effectively allowing separation of North American and intercontinental mail.

*Table B2.* Until FY 1991, USPS did not provide data for international IPA and ISAL in RPW reports. Table B2 collects this information from various sources.

*Table B3.* USPS keeps internal records of the destinations of mail for purposes of international accounting. Table B3 summarizes USPS internal reports, for FY 1985 and FY 1986, that give RPW-like data for international LC and AO mail for Canada, Mexico, Europe, Asia/Middle East/Africa, Central America, and South America. These data correlate reasonably well with RPW data. Table B3 is most important as a source for average weight per piece. It also gives regional distributions, although there is no separation of the Pacific Rim (presumably transported via the Pacific) and Near East/Africa regions (presumably transported via the Atlantic).

*Table B4.* Table B4 summarizes a second internal USPS report for *calendar* 1986. This report disaggregates international mail traffic by country, but does not give piece or revenue data and does not indicate which country is in which region. The total weight reported does not agree too well with FY 1986 for unknown reasons.

We have assigned all countries to specific airline regions and to terminal dues regimes, although there may be some errors in our assignment. To check our assignment, we have indicated the IPA and ISAL zones associated with each country. The IPA zones appear to correspond to terminal dues regimes. The ISAL zones appear to follow airline routings. The close (but not perfect) correspondence between the IPA/ISAL zones gives us some confidence that our assignment scheme is essentially correct. However, the overall regional distribution derived from Table B4 seems to vary significantly from that derived from Table B3, for unknown reasons.

*Table B5.* Based on Tables B3 and B4, we have developed a distribution key for intercontinental mail by aviation and terminal dues region.

*Table B6.* By assuming that the average weights of North America and intercontinental pieces remained constant after FY 1987 and making certain additional assumptions about the fraction of surface IALC prior to FY 1985 and IPA after FY 1986 bound for North America, it is possible to develop a rough estimate of the history of intercontinental IALC from FY 1980 to FY 1991.

**TABLE B1. INTERNATIONAL MAIL, RPW REPORTS, FY 1980-91**

Fiscal year> Report date>	FY1980 12/14/81	FY1981 01/24/83	FY1982 NA	FY1983 NA	FY1984 NA	FY1985 NA	FY1986 12/11/87	FY1987 12/01/88	FY1988 11/24/89	FY1989 11/14/90	FY1990 11/12/91	FY1991 11/12/91
<b>Revenue (\$ mil)</b>												
Surf LC	64.1	71.9	83.5	83.9	74.1	70.1	69.5	53.7	23.4	18.5	19.2	16.5
Surf AO	21.3	26.6	35.3	33.8	28.2	29.8	34.6	34.2	43.7	52.6	57.9	46.2
Surf CP	32.5	50.3	60.0	51.9	55.7	50.6	57.4	57.5	50.3	52.4	54.7	76.8
Surf 2d CI	36.5	48.5	55.1	53.3	54.9	62.3	59.4	60.5	75.5	93.4	90.2	81.9
Surf total	-	-	-	-	-	-	-	-	-	216.8	222.1	221.4
Air LC	246.9	267.4	338.4	340.1	353.6	355.5	348.3	341.8	344.7	352.1	367.3	395.4
Air AO	67.3	102.6	90.5	94.4	99.1	104.1	107.4	114.4	137.3	151.3	152.5	132.1
Air CP	41.7	52.0	58.6	71.1	65.8	76.9	66.9	70.1	88.8	90.8	94.2	101.5
Air total	-	-	-	-	-	-	-	-	-	594.2	614.0	629.0
Transit	85.7	115.9	154.1	139.5	120.8	128.5	144.7	170.6	164.0	187.2	219.3	224.3
Special handling	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-	-	-	-
IEMS	-	-	-	-	-	-	-	-	-	-	62.2	74.2
ISAL	-	-	-	-	-	-	-	-	-	-	29.3	35.4
IPA	-	-	-	-	-	-	-	-	-	-	15.1	20.7
Miscellaneous	0.4	0.3	6.0	5.6	6.5	45.9	45.9	54.4	64.0	82.8	1.2	0.9
Total	596.4	735.4	881.5	873.6	858.6	923.6	934.1	957.2	991.6	1,081.2	1,163.2	1,206.0

**TABLE B1. INTERNATIONAL MAIL, RPW REPORTS, FY 1980-91**

**Pieces (mil)**

Surf LC	274.4	259.5	260.1	247.5	219.9	192.1	186.8	141.8	43.7	33.4	38.6	27.2
Surf AO	25.6	16.6	19.3	15.5	12.5	10.1	12.8	13.8	18.8	15.7	15.6	15.2
Surf CP	4.5	5.0	5.2	4.5	4.6	3.8	4.1	4.8	3.5	3.3	3.7	3.9
Surf 2d Cl	146.0	131.7	120.1	117.6	115.6	121.5	112.1	106.5	110.4	113.3	108.1	100.1
Surf total	-	-	-	-	-	-	-	-	-	165.8	165.9	146.5
Air LC	491.5	447.0	497.8	490.4	509.6	470.5	450.0	479.8	515.9	521.6	590.5	609.0
Air AO	19.3	23.3	21.7	25.4	28.4	27.3	25.9	26.2	28.2	30.2	34.3	29.3
Air CP	2.5	2.5	3.4	3.9	4.4	4.1	3.3	3.4	4.0	3.8	4.1	4.0
Air total	-	-	-	-	-	-	-	-	-	555.5	628.9	642.3
Transit	-	-	-	-	-	-	-	-	-	-	-	-
Spec. handling	-	-	-	-	-	-	-	-	-	-	-	-
IEMS	-	-	-	-	-	-	-	-	-	-	3.5	4.1
ISAL	-	-	-	-	-	-	-	-	-	-	-	-
IPA	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	1.3	1.3	1.4	1.8	2.5	-	-
Total	963.8	885.5	927.5	904.8	894.8	830.7	796.3	777.8	726.2	723.9	798.3	792.8

**TABLE B1. INTERNATIONAL MAIL, RPW REPORTS, FY 1980-91**

<b>Weight (lb mil)</b>												
Surf LC	18.7	19.6	18.3	17.7	16.9	16.0	14.0	10.5	3.8	2.7	3.3	2.5
Surf AO	41.1	37.8	44.0	46.0	37.8	32.2	38.2	38.1	38.1	40.9	50.8	37.9
Surf CP	46.1	51.3	50.7	45.8	47.5	38.8	39.9	39.9	32.7	31.0	32.3	35.4
Surf 2d Cl	57.9	51.4	61.5	57.1	63.4	66.7	61.7	59.6	63.4	64.9	59.8	58.1
Surf total	-	-	-	-	-	-	-	-	-	139.4	146.2	134.0
Air LC	19.4	17.8	21.7	22.4	23.9	23.1	21.5	23.9	30.9	30.3	32.1	32.0
Air AO	20.9	21.9	17.9	18.3	19.1	18.3	18.5	20.0	22.8	23.3	26.1	20.9
Air CP	11.5	12.3	15.2	20.6	20.7	21.9	18.3	19.2	23.0	23.0	23.9	24.6
Air total	-	-	-	-	-	-	-	-	-	76.6	82.0	77.5
Transit	-	-	-	-	-	-	-	-	-	-	-	-
Special handling	-	-	-	-	-	-	-	-	-	-	-	-
IEMS	-	-	-	-	-	-	-	-	-	-	6.5	7.6
ISAL	-	-	-	-	-	-	-	-	-	-	11.7	14.2
IPA	-	-	-	-	-	-	-	-	-	-	2.2	2.9
Miscellaneous	-	-	2.0	2.5	2.4	6.1	3.7	4.7	7.9	11.9	-	-
Totals	215.6	212.2	231.4	230.5	231.7	223.1	215.7	215.9	222.5	227.9	248.6	236.0

Source: U.S. Postal Service, "Revenue, Pieces, and Weights" reports, versions dated as indicated.

Notes: Fiscal year is year ending 30 September; e.g., FY 1990 is 1 Oct 1989 to 30 Sep 1990. In general, each year's data is taken from the annual RPW summary for the following year. Details may not add due to rounding by USPS.

Prior to FY 1985, international EMS was included with domestic and omitted from "miscellaneous" international figures. Prior to FY 1990, "miscellaneous" includes EMS, IPA, and ISAL. Effective 1987 PQIV, all LC mail to Canada and Mexico is categorized as airmail.

**TABLE B2. IPA AND ISAL TRAFFIC, FY 1983-91**

	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989	FY 1990	FY 1991
<b>Pieces (000)</b>									
EMS	-	1,089	1,311	-	1,360	1,700	2,547	3,510	4,079
IPA	-	-	-	-	-	-	-	-	-
ISAL	-	19,642	-	-	-	-	-	-	-
RPW misc	-	0	1,311	2,718	1,387	1,847	2,546		
<b>Weight (000 lb)</b>									
EMS	-	4,026	4,286	2,236	2,243	3,358	4,889	6,508	7,561
IPA	-	-	-	74	754	1,200	1,587	2,166	2,851
ISAL	2,500	2,400	1,800	1,400	1,675	3,300	6,905	11,694	14,204
RPW misc	2,485	2,404	6,138	3,710	4,672	7,858	11,858	-	-

Sources: USPS report to Board of Governors, August 1985; PRC Dkt R90-1, Workpaper B-3 of USPS witness Barker, and USPS Answer to First Set of Interrogatories of the Air Courier Conference of America Directed to witness Seeman; USPS, Comprehensive Statement on Postal Operations (annual, various years) USPS, Revenues, Pieces, Weight reports (annual); Table B1 (RPW miscellaneous).

Notes: See notes to Table B1. In FY 1986 to FY 1988, EMS figures are calculated by subtracting IPA and ISAL figures from RPW miscellaneous figure.

**TABLE B3. INT'L LC AND AO, REGIONAL DESTINATION REPORTS, FY 1985-86**

		<u>RPW</u>	<u>Regional report</u>	<u>Canada</u>	<u>Mexico</u>	<u>North America</u>	<u>Europe</u>	<u>Asia, ME &amp; Africa</u>	<u>Central America</u>	<u>South America</u>	<u>Intercon tinental</u>
<u>FY 1985</u>											
<b>Revenue (\$ mil)</b>											
Surface	LC	70.1	72.3	50.5	15.4	65.9					6.4
Surface	AO	29.8	31.6	9.4	0.9	10.2					21.4
Air	LC	355.5	329.6	0.0	0.0	0.0	175.9	106.9	25.4	21.4	329.6
Air	AO	104.1	98.6	2.7	0.5	3.3	40.0	41.4	5.4	8.5	95.3
<b>Pieces (mil)</b>											
Surface	LC	192.1	195.0	130.9	51.6	182.5					13.5
Surface	AO	10.1	20.3	7.0	0.9	7.9					12.4
Air	LC	470.5	434.2	0.0	0.0	0.0	221.8	141.2	43.1	28.1	434.2
Air	AO	27.3	25.9	0.8	0.2	1.1	10.6	9.5	2.1	2.6	24.9
<b>Weight (lb mil)</b>											
Surface	LC	16.0	16.8	13.3	2.4	15.7					1.1
Surface	AO	32.2	34.5	7.8	0.5	8.3	1.4	16.1	1.6	0.2	26.2
Air	LC	23.1	20.7	0.0	0.0	0.0	11.1	6.5	1.6	1.4	20.7
Percent							53.8%	31.6%	7.8%	6.8%	100.0%
Air	AO	18.3	16.1	1.4	0.2	1.6	6.9	4.7	1.3	1.6	14.5
Percent							47.7%	32.3%	8.8%	11.2%	100.0%
<b>Wt/pce (oz)</b>											
Surface	LC		1.377	1.638	0.751	1.386					1.257
Surface	AO		27.162	17.743	9.934	16.879					33.672
Air	LC	0.000	0.762	-	-	-	0.803	0.742	0.598	0.797	0.762
Air	AO		9.953	-	-	-	10.470	7.879	9.570	9.780	9.329

**TABLE B3. INT'L LC AND AO, REGIONAL DESTINATION REPORTS, FY 1985-86**

<u>FY1986</u>											
<b>Revenue (\$ mil)</b>											
Surface	LC	69.5	70.2	48.9	15.2	64.1					6.1
Surface	AO	34.6	36.6	10.0	0.5	10.5					26.1
Air	LC	348.3	298.5	0.0	0.0	0.0	145.4	105.6	26.8	20.6	298.5
Air	AO	107.4	104.0	3.8	1.1	4.8	43.7	42.4	4.9	8.1	99.1
<b>Pieces (mil)</b>											
Surface	LC	186.8	185.0	122.8	50.0	172.8					12.2
Surface	AO	12.8	21.6	7.6	0.4	7.9					13.7
Air	LC	450.0	430.0	0.0	0.0	0.0	219.8	135.2	46.0	29.0	430.0
Air	AO	25.9	25.1	1.4	0.4	1.8	10.8	8.5	1.9	2.0	23.3
<b>Weight (lb mil)</b>											
Surface	LC	14.0	14.8	12.1	2.0	14.1					0.7
Surface	AO	38.2	37.3	7.7	0.5	8.2					29.2
Air	LC	21.5	20.1	0.0	0.0	0.0	10.9	6.3	1.6	1.3	20.1
Percent							54.4%	31.3%	8.1%	6.3%	100.0%
Air	AO	18.5	18.7	1.8	1.4	3.2	7.1	5.7	1.1	1.6	15.5
Percent							45.9%	36.6%	7.2%	10.2%	100.0%
<b>Wt/pce (oz)</b>											
Surface	LC		1.279	1.579	0.632	1.305					0.910
Surface	AO		27.630	16.276	20.873	16.484					34.073
Air	LC	0.000	0.748	-	-	-	0.796	0.744	0.563	0.696	0.748
Air	AO		11.953	-	-	-	10.495	10.614	9.626	12.505	10.644

Source: USPS, Revenue and Volume Statistics Branch, Statistical Reporting Division.

Note: RPW figures included for comparison. Regional reports were apparently adjusted before inclusion in RPW. Revenue figures in the regional reports may lack inward terminal dues revenues. Airmail items without an identified regional destination were allocated to other intercontinental regions in same proportion as identified traffic.



**TABLE B4. WEIGHT DISTRIBUTION OF INTERNATIONAL IALC BY COUNTRY/IPA ZONE/ISAL ZONE, CY 1986**

	Europe 46.8%				Pacific Rim 25.3%				Near East & Africa 10.8%				Central Am 9.5%				South Am 7.6%			
	Country	%	IP	IS	Country	%	IP	IS	Country	%	IP	IS	Country	%	IP	IS	Country	%	IP	IS
CEPT 48.6%	Denmark	1.0%	1	1	Australia	4.1%	1	3												
	Finland	0.6%	1	1	Japan	7.1%	1	3												
	France	4.7%	1	1	New Zealand	1.1%	3	3												
	Germany East	0.1%	1	1	Total	12.3%														
	Germany West	7.7%	1	1																
	Great Britain	13.0%	1	1																
	Iceland	0.1%	1	1																
	Ireland	1.0%	1	1																
	Italy	2.8%	1	1																
	Luxembourg	0.1%	1	1																
	Netherlands	2.3%	1	1																
	Norway	1.1%	1	1																
	Sweden	1.8%	1	1																
	Total	36.3%																		
UPU High 28.0%	Belgium	1.4%	3	1	China (PRC)	1.3%	3	3	India	2.1%	3	4					Argentina	1.2%	2	2
	Greece	0.9%	3	1	Hong Kong	2.0%	3	3	Israel	1.6%	3	4					Brazil	1.9%	2	2
	Spain	1.5%	3	1	Korea	1.7%	3	3	Saudi Arabia	1.1%	3	4					Colombia	1.7%	3	2
	Switzerland	2.6%	3	1	Philippines	2.5%	3	3	South Africa	1.2%	3	4					Total	4.9%		
	Total	6.5%			Singapore	1.1%	3	3	Total	6.0%										
					Taiwan	2.1%	3	3												
					Total	10.6%														
UPU Low 23.4%	Austria	0.8%	3		Thailand	0.7%	3	3	Rest	4.7%	2	4	Rest	9.5%	2	2	Rest	2.7%	2	2
	Czechoslovakia	0.3%	3		Rest	1.6%	2	3												
	Hungary	0.3%	3		Total	2.3%														
	Poland	0.7%	3																	
	Portugal	0.5%	3																	
	USSR	0.4%	3																	
	Yugoslavia	0.3%	3																	
	Rest	0.7%	2																	
	Total	4.1%																		

Source: N.Y. Postal Data Center, "International Accounts: Quarterly Outbound Mail Summary by Destination City, Jan-Dec 1987" (17 Feb 1987).

Note: "IP" and "IS" refer to IPA and ISAL zones according to USPS rates effective 4 April 1992.

## B.5 DISTRIBUTION KEYS FOR INTERCONTINENTAL TRAFFIC

Postal Region > Terminal dues >	Europe Reg	CEPT	UH	UL	Asia/ME Africa	Pacific Rim Reg	CEPT	UH	UL	Nr East/Af Reg	UH	UL	C Am UL	South Am Reg	UH	UL
FY 1985 Regional Rpt, LC	54%				32%								8%	7%		
FY 1986 Regional Rpt, LC	54%				31%								8%	6%		
CY 1986 Country Rpt, LC	47%	36%	6%	4%	36%	25%	12%	11%	2%	11%	6%	5%	9%	8%	5%	3%
Distribution Key, LC	52%	40%	7%	5%	33%	24%	12%	10%	2%	9%	5%	4%	8%	7%	4%	3%
FY 1985 Regional Rpt, AO	48%				32%								9%	11%		
FY 1986 Regional Rpt, AO	46%				37%								7%	10%		
Distribution Key, AO	48%	37%	7%	4%	36%	26%	13%	11%	2%	10%	5%	4%	7%	10%	6%	4%

Source: Tables B3 and B4.

Notes: Distribution keys rounded to whole percents.

The foregoing distribution keys are "eyeball estimates" derived from the indicated data.

Within geographic regions, no effort has been made to ascertain differences between LC and AO distribution among terminal dues areas.

**TABLE B6. IALC, RPW DISAGGREGATED BY REGION, FY 1980-91**

	<u>FY 1980</u>	<u>FY 1981</u>	<u>FY 1982</u>	<u>FY 1983</u>	<u>FY 1984</u>	<u>FY 1985</u>	<u>FY 1986</u>	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>	<u>FY 1990</u>	<u>FY 1991</u>
<b>Pieces (mil)</b>												
Surf LC (RPW)	274.4	259.5	260.1	247.5	219.9	192.1	186.8	141.8	42.2	33.4	37.7	27.2
North America (%)	93.1%	93.1%	93.1%	93.1%	93.1%	93.1%	93.4%	86.1%	0.0%	0.0%	0.0%	0.0%
North America	255.4	241.6	242.1	230.4	204.7	178.8	174.4	122.1	0.0	0.0	0.0	0.0
Intercontinental	18.9	17.9	17.9	17.1	15.2	13.3	12.3	19.7	42.2	33.4	37.7	27.2
Air LC (RPW)	491.5	447.0	497.8	490.4	509.6	470.5	450.0	479.8	512.2	521.6	590.5	609.0
North America	0.0	0.0	0.0	0.0	0.0	0.0	0.0	28.1	165.3	155.8	116.9	92.7
Intercontinental	491.5	447.0	497.8	490.4	509.6	470.5	450.0	451.7	346.9	365.7	473.6	516.3
Air IPA (see notes)							2.1	15.8	25.6	33.8	46.2	60.8
North America (%)							8.3%	8.3%	8.3%	8.3%	8.3%	8.3%
North America							0.2	1.3	2.1	2.8	3.8	5.0
Intercontinental							1.9	14.5	23.5	31.0	42.4	55.8
Total LC (RPW)	765.9	706.5	757.9	738.0	729.5	662.6	636.8	621.6	554.3	555.0	628.2	636.2
North America	255.4	241.6	242.1	230.4	204.7	178.8	174.4	150.2	165.3	155.8	116.9	92.7
North America, IPA							0.2	1.3	2.1	2.8	3.8	5.0
Intercontinental, air	491.5	447.0	497.8	490.4	509.6	470.5	450.0	451.7	346.9	365.7	473.6	516.3
Intercontinental, IPA							1.9	14.5	23.5	31.0	42.4	55.8
Intercontinental, surf	18.9	17.9	17.9	17.1	15.2	13.3	12.3	19.7	42.2	33.4	37.7	27.2

**TABLE B6. IALC, RPW DISAGGREGATED BY REGION, FY 1980-91**

<b>Weight (mil lb)</b>												
Surf LC (RPW)	18.7	19.6	18.3	17.7	16.9	16.0	14.0	10.5	3.5	2.7	3.3	2.5
North America (%)	93.7%	93.7%	93.7%	93.7%	93.7%	93.7%	95.3%	86.5%	0.0%	0.0%	0.0%	0.0%
North America	17.5	18.4	17.1	16.6	15.8	15.0	13.3	9.1	0.0	0.0	0.0	0.0
Intercontinental	1.2	1.2	1.2	1.1	1.1	1.0	0.7	1.4	3.5	2.7	3.3	2.5
Air LC (RPW)	19.4	17.8	21.7	22.4	23.9	23.1	21.5	23.9	30.2	30.3	32.1	32.0
North America	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.4	13.9	13.1	9.9	7.8
Intercontinental	19.4	17.8	21.7	22.4	23.9	23.1	21.5	21.5	16.3	17.1	22.2	24.2
Air IPA (see notes)							0.1	0.8	1.2	1.6	2.2	2.9
North America (%)							8.3%	8.3%	8.3%	8.3%	8.3%	8.3%
North America							0.0	0.1	0.1	0.1	0.2	0.2
Intercontinental							0.1	0.7	1.1	1.5	2.0	2.6
Total LC (RPW)	38.1	37.4	40.0	40.1	40.7	39.1	35.4	34.4	33.7	33.0	35.4	34.6
North America	17.5	18.4	17.1	16.6	15.8	15.0	13.3	11.4	13.9	13.1	9.9	7.8
North America, IPA												
Intercontinental, air	19.4	17.8	21.7	22.4	23.9	23.1	21.5	21.5	16.3	17.1	22.2	24.2
Intercontinental, IPA												
Intercontinental, surf	1.2	1.2	1.2	1.1	1.1	1.0	0.7	1.4	3.5	2.7	3.3	2.5

**TABLE B6. IALC, RPW DISAGGREGATED BY REGION, FY 1980-91**

<b>Wt/Pce (oz)</b>												
Surf LC (RPW)	1.092	1.209	1.124	1.145	1.228	1.330	1.197	1.181	1.322	1.274	1.411	1.494
North America	1.099	1.217	1.131	1.152	1.236	1.339	1.222	1.186				
Intercontinental	0.997	1.104	1.026	1.045	1.125	1.214	0.852	1.150	1.322	1.274	1.411	1.494
Air LC (RPW)	0.631	0.639	0.697	0.731	0.749	0.786	0.763	0.797	0.944	0.929	0.869	0.841
North America								1.350	1.350	1.350	1.350	1.350
Intercontinental	0.631	0.639	0.697	0.731	0.749	0.786	0.763	0.762	0.750	0.750	0.750	0.750
Air IPA (see notes)							0.763	0.762	0.750	0.750	0.750	0.750
North America							0.763	0.762	0.750	0.750	0.750	0.750
Intercontinental							0.763	0.762	0.750	0.750	0.750	0.750
Total LC (RPW)	0.796	0.848	0.844	0.870	0.894	0.944	0.891	0.884	0.972	0.950	0.901	0.869
North America	1.099	1.217	1.131	1.152	1.236	1.339	1.222	1.216	1.350	1.350	1.350	1.350
North America, IPA												
Intercontinental, air	0.631	0.639	0.697	0.731	0.749	0.786	0.763	0.762	0.750	0.750	0.750	0.750
Intercontinental, IPA												
Intercontinental, surf	0.997	1.104	1.026	1.045	1.125	1.214	0.852	1.150	1.322	1.274	1.411	1.494

Source: Tables B1, B2, B5.

Note: Disaggregation based upon following key assumptions (shaded in chart):

- 0.8 Average weight per LC, Intercontinental airmail, FY 1987 Q4 and after (oz).
- 1.4 Average weight per LC, North American mail, FY 1987 Q4 and after (oz).
- 0.9 Percent of Surface LC sent to North America, FY 1984 and earlier, by pieces.
- 0.9 Percent of Surface LC sent to North America, FY 1984 and earlier, by weight.

Note that in this table, the average weight per item for ISAL and IPA have been assumed to be the same during the period involved.

## APPENDIX C

### INTERNATIONAL POSTAL RATES

In order to compare costs and revenues, it is necessary to translate postage rates and/or revenues into the same form as cost data, i.e., per pound by fiscal year. In this manner it is possible to estimate which international postal services are overpriced and which are underpriced. The tables in this appendix set out these calculations.

*Table 1.* Table 1 lists international postal rates since 1980. Major domestic rates are included for comparison.

*Table 2.* This table shows how the series of postal rates is converted into average rates per fiscal year. If two rates were used in a particular fiscal year, the combined rate represents contributions from each rate proportional to the fraction of the year the rate was effective.

*Table 3.* This table demonstrates the close relation, from FY 1980 through FY 1986, between the half ounce IALC rate and the average revenue per piece for intercontinental IALC given in the RPW reports. After FY 1986, intercontinental revenue per piece cannot be derived from the RPW reports directly because of the commingling of North America and intercontinental mail in the "air LC" account lines. Hence, we have estimated the revenue per piece from increases in the half ounce IALC rate. These have been converted to revenue per pound by assuming that the average weight per intercontinental IALC item has remained constant at 0.75 ounce from FY 1987 through FY 1991.

**TABLE C1. POSTAGE RATES, 1980-1991**

<b>Domestic &amp; North America</b>	<u>29-May-78</u>	<u>22-Mar-81</u>	<u>01-Nov-81</u>	<u>17-Feb-85</u>	<u>03-Apr-88</u>	<u>03-Feb-91</u>
First class, non presort, 1st oz	\$0.15	\$0.18	\$0.20	\$0.22	\$0.25	\$0.29
Additional ounce	\$0.13	\$0.17	\$0.17	\$0.17	\$0.20	\$0.23
First class, presort, 3/5 1st oz	\$0.13	\$0.15	\$0.17	\$0.18	\$0.21	\$0.25
Additional ounce	\$0.13	\$0.17	\$0.17	\$0.17	\$0.20	\$0.23
Canada, 1st ounce	\$0.15	\$0.18	\$0.22	\$0.22	\$0.30	\$0.40
Additional ounce	\$0.13	\$0.17	\$0.18	\$0.22	\$0.22	\$0.23
Mexico, 1st ounce	\$0.15	\$0.18	\$0.22	\$0.22	\$0.25	NA
Additional ounce	\$0.13	\$0.17	\$0.18	\$0.22	\$0.20	NA
 <b>Intercontinental IALC</b>	 <u>03-Jan-76</u>	 <u>01-Jan-81</u>	 <u>17-Feb-85</u>	 <u>03-Apr-88</u>	 <u>03-Feb-91</u>	
Intercontinental IALC, 1st half oz	\$0.31	\$0.40	\$0.44	\$0.45	\$0.50	
0.5 to 1 ounce	\$0.62	\$0.80	\$0.88	\$0.90	\$0.95	
1 to 1.5 ounce	\$0.93	\$1.20	\$1.32	\$1.35	\$1.34	
1.5 to 2 ounce	\$1.24	\$1.60	\$1.76	\$1.80	\$1.73	
Additional half oz, 2-31.5 oz	\$0.26	\$0.35	\$0.39	\$0.42	\$0.39	
Additional ounce, 33-64 oz	\$0.52	\$0.35	\$0.39	\$0.42	\$0.39	
Caribbean & C Am IALC, 1st half oz	\$0.25	\$0.35	\$0.39	\$0.45	\$0.50	
0.5 to 1 ounce	\$0.50	\$0.70	\$0.78	\$0.90	\$0.95	
1 to 1.5 ounce	\$0.75	\$1.05	\$1.17	\$1.35	\$1.34	
1.5 to 2 ounce	\$1.00	\$1.40	\$1.56	\$1.80	\$1.73	
Additional half oz, 2.5-32 oz	\$0.21	\$0.30	\$0.33	\$0.42	\$0.39	
Additional ounce, 33-64 oz	\$0.42	\$0.30	\$0.33	\$0.42	\$0.39	

**TABLE C1. POSTAGE RATES, 1980-1991**

<b>IPA/ISAL</b>	<u>18-May-86</u>	<u>03-Apr-88</u>	<u>02-Jun-90</u>	<u>12-Jan-91</u>	<u>04-Apr-92</u>
IPA, sorted					
Zone 1 (CEPT terminal dues)					
Per piece	-	-	-	-	\$0.20
Per pound	\$6.80	\$6.80	\$7.00	\$7.00	\$4.95
Zone 2 (UPU low volume TD)					
Per piece	-	-	-	-	\$0.15
Per pound	\$6.80	\$6.80	\$7.00	\$7.00	\$6.15
Zone 3 (UPU high volume TD)					
Per piece	-	-	-	-	\$0.15
Per pound	\$6.80	\$6.80	\$7.00	\$7.00	\$7.95
IPA, unsorted					
Per piece	-	-	-	-	\$0.20
Per pound	-	-	\$8.50	\$8.50	\$8.00
ISAL, 0-2 oz, per piece	-	-	-	\$0.24	\$0.32
ISAL, full service					
Zone 1 (Europe)	-	-	-	\$2.85	\$2.90
Zone 2 (Central/South Am)	-	-	-	\$3.25	\$3.25
Zone 3 (Pacific Rim)	-	-	-	\$3.50	\$3.40
Zone 4 (Near East, Africa)	-	-	-	\$4.20	\$4.20

Source: USPS, Domestic Mail Rate History (July 1988); USPS, International Rate History (July 1991); USPS, Special Postal Bulletin (24 Jan 1991) (IALC); 57 F.R. 8499 (10 March 1992) (IPA, ISAL).

Notes: Prior to 12 January 1991, ISAL zones were defined differently.



**TABLE C2. "HALF OUNCE INTERCONTINENTAL IALC RATES," BY FISCAL YEAR, FY 1980-91**

Intercontinental IALC weighs only 0.75 oz. per piece on average and intercontinental IALC rates per half ounce weight step have been (until 3 February 1991) uniform in the 0 to 2 ounce weight range. Hence, almost all intercontinental IALC was charged at the "first half ounce rate" per half ounce, regardless of distribution of the mail among the four weight steps (0-0.5 oz, 0.5-1.0 oz, 1.0-1.5 oz, and 1.5-2.0 oz). That is, almost all intercontinental IALC was charged at a uniform half ounce intercontinental IALC rate.

The 3 February 1991 rates introduced declining additional half ounce charges for the second, third, and fourth half ounces. To calculate the average charge per half ounce weight step, it would be necessary to know the distribution of mail among the various weight steps. This distribution is unknown. In lieu of this information, it has been assumed that the average charge per half ounce after the 3 February 1991 rate change is one half of the 1 ounce rate, or \$ 0.475.

This table apportions these "half ounce intercontinental IALC postage rates" by fiscal year in order to serve as input for Table C3.

Fiscal year	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
Begin	01-Oct-79	01-Oct-80	01-Oct-81	01-Oct-82	01-Oct-83	01-Oct-84	01-Oct-85	01-Oct-86	01-Oct-87	01-Oct-88	01-Oct-89	01-Oct-90	01-Oct-91
No. of days	366	365	365	365	366	365	365	365	366	365	365	365	366
End	30-Sep-80	30-Sep-81	30-Sep-82	30-Sep-83	30-Sep-84	30-Sep-85	30-Sep-86	30-Sep-87	30-Sep-88	30-Sep-89	30-Sep-90	30-Sep-91	30-Sep-92
Rate, first	\$0.310	\$0.310	\$0.400	\$0.400	\$0.400	\$0.400	\$0.440	\$0.440	\$0.450	\$0.450	\$0.450	\$0.450	\$0.475
No. of days	366	92	365	365	366	139	365	365	185	365	365	125	366
Date, new rate	None	01-Jan-81	None	None	None	17-Feb-85	None	None	03-Apr-88	None	None	03-Feb-91	None
New rate	None	\$0.400	None	None	None	\$0.440	None	None	\$0.450	None	None	\$0.475	None
No. of days	0	273	0	0	0	226	0	0	181	0	0	240	0
Composite rate	\$0.310	\$0.377	\$0.400	\$0.400	\$0.400	\$0.425	\$0.440	\$0.440	\$0.450	\$0.450	\$0.450	\$0.466	\$0.475

**TABLE C3. INTERCONTINENTAL IALC REVENUE PER POUND, FY 1980-91**

This table uses the "half ounce intercontinental IALC rate, developed in Table C2 (line 1, "rate, 1/2 oz").

As the graph shows, prior to the commingling of North American and intercontinental traffic in FY 1987, the revenue per piece for "intercontinental air LC" (from RPW reports, table B1) closely follows the "half ounce intercontinental IALC rate."

Beginning in FY 1987, revenue per piece has been estimated by proportional changes in the "half ounce intercontinental postage rate."

	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989	FY 1990	FY 1991	FY 1992
<b>Intercont IALC</b>													
Rate, 1/2 oz	\$0.310	\$0.377	\$0.400	\$0.400	\$0.400	\$0.425	\$0.440	\$0.440	\$0.445	\$0.450	\$0.450	\$0.466	\$0.475
Rev/pce (RPW)	\$0.502	\$0.598	\$0.680	\$0.694	\$0.694	\$0.755	\$0.774						
Est rev/pce							\$0.774	\$0.774	\$0.783	\$0.792	\$0.792	\$0.820	\$0.836
Rev/lb (RPW)	\$12.735	\$14.989	\$15.597	\$15.187	\$14.801	\$15.382	\$16.226						
Est rev/lb								\$16.511	\$16.697	\$16.887	\$16.887	\$17.503	\$17.825
<b>IPA</b>													
Rate, lb	-	-	-	-	-	-	\$6.800	\$6.800	\$6.800	\$6.800	\$6.866	\$7.000	\$7.000

Notes: For comparison, the regional reports for FY 1985 and FY 1986 (Table B3) indicate revenue per piece of \$0.759 and \$0.694.  
Revenue per pound after FY 1986 estimated from revenue per piece by assuming average weight per piece remained constant at 0.75 ounce.

